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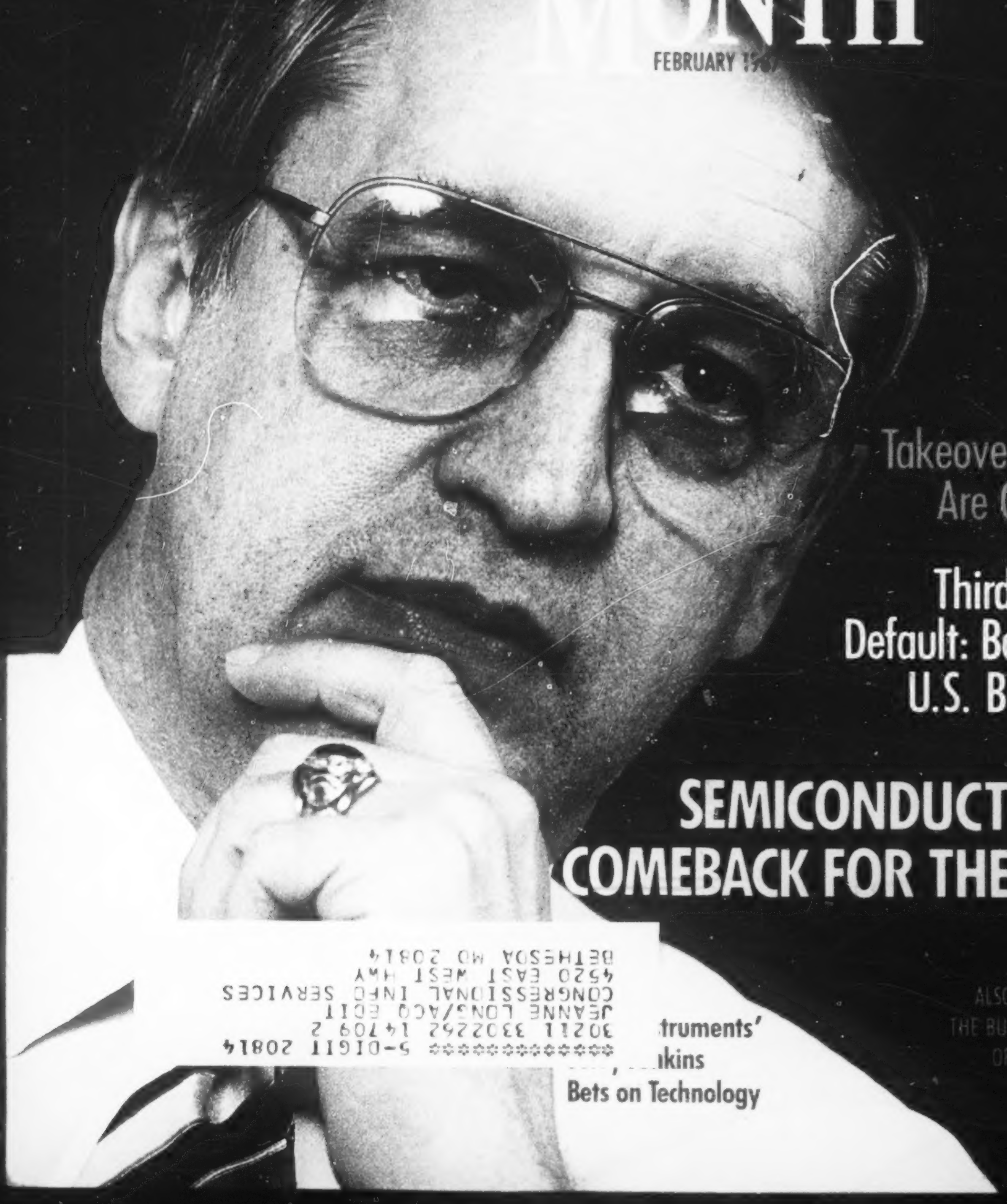
...ising
...apital With
Global Equities

DUN'S BUSINESS MONTH
FEBRUARY 1987



Takeover Curbs Are Coming

Third World Default: Boon for U.S. Business

SEMICONDUCTORS: COMEBACK FOR THE U.S.

...truments'
...kins
Bets on Technology

ALSO FEATURING:
THE BUSINESS NEWS
OF THE MONTH

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42

Feature Departments

WASHINGTON

New Ploy To Pay For Programs 30
The federal government wants business, individuals and the states to sign the chit for social spending.

MANAGEMENT

Slashing Hospital Bills 32
America's hospitals are woefully over-bedded. Vanguard companies are taking advantage of their need for patients to negotiate discounts.

INDUSTRIES

Semiconductors: Comeback for The U.S. 34
The gloom brightens: Increased U.S. demand and Silicon Valley's lead in microprocessors and semi-custom chips herald a domestic resurgence.

TI Bets On Chips Again 37
Under CEO Jerry Junkins, Texas Instruments is gearing up to exploit new markets and regain its worldwide preeminence.

MONEY&MARKETS

Takeover Curbs Are Coming 42
The post-Boesky Congress is determined to hamper takeover abuses. Business can bury its head in the sand or try to influence the outcome.

- **Whitewashing Greenmail** 44

INTERNATIONAL

Raising Money With Global Equities 50
To protect share price at home and provide more liquidity, cash-hungry companies are turning to the Euroequities market. It's booming.

COMMUNICATIONS

Cable Operators Fight Back 54
No more going out in the rain to the video store if cable operators succeed in making pay-per-view pay off this time. Don't bet against them.

COVER PHOTOGRAPH BY SHELLY KATZ/BLACK STAR

DUN'S BUSINESS MONTH
February 1987, Vol. 129, No. 2

ADVERTISING

Resurgence In Comparative Ads 56
Blatant name-calling is still a sure-fire strategy.

BANKING

GE Takes On The Fed 62
GE is running an efficient, cheap retail transactions payment service. By tilting the field against it, the Fed has kept GE at bay.

ECONOMY

A Novel Way To Pare the Trade Deficit 66
The Third World's debt load is hurting U.S. manufacturers more than the banks. The pressure builds for write-offs.

Letters 7
Product liability reform

Managers in The News 9
Auto industry virgin.

Managing Information 71
Turmoil in PC market.

Personal Finance 73
On Wall Street: Small Stocks Due for a Big Play

New tax law turns rules on executive perks topsy-turvy. 75

Investment Update 76

66

The Business Month

27

WASHINGTON

- *Budget battle begins* 19
- *Caucus flexes its muscle*
- *Soviet trade curbs easing?*

ECONOMY

- *Biotech blow to farmers* 19
- *Reagan gets tough on trade*
- *Edge of a recession?*

COMPANIES

- *No rest for Roderick* 20
- *Merger roundup*
- *Pickens gets mad*
- *Merrill Lynch tries again*

INTERNATIONAL

- *OPEC wins one* 21
- *Pyrrhic victory for Chirac?*
- *Europe realigns currencies*

INDUSTRIES

- *Will Japan control U.S. car market?* 22
- *Jumbo jet battle*
- *Turnaround for gas prices?*
- *AT&T outdistances rivals*

MONEY & MARKETS

- *How long the bull?* 23
- *Big banks' power play*
- *Bewitched by Salomon*
- *New face of Texas banks*
- *BankAmerica hangs tough*
- *New banking standards bow*

ADVERTISING

- *Cologne for kids* 27

MANAGEMENT

- *U.S. CEO pay still tops Europe* 27
- *Court upholds pregnancy leave*
- *RJR loves Atlanta*

TECHNOLOGY

- *B1-B bomber's costly woes* 28
- *Fairchild-Fujitsu deal dead?*

1987

AUTO and TRUCK FLEET STATISTICS

A special directory compiled by the Business Department

The Tax Reform Act of 1986 embodies changes that impact Corporate Fleet Managers. Phasing out interest deductions, for example, means taking a fresh look at the advantages of leasing vs. purchasing.

While fuel costs are expected to rise only moderately in 1987, the prospects are for high costs to return in the next decade. That's why companies are sticking with the down-sizing programs that lowered operating costs.

Some technical highlights of 1987 cars:

- The computing power of on-board automotive electronics continues to escalate. Some luxury models now boast a combined computer information systems memory capacity of over 90 Kbytes.
- The carburetor is well on its way to extinction. For example, all domestic Ford cars (except for police sedans) have fuel-injected engines.

Listed below are basic statistics on many of the most widely used automobiles, vans and light trucks in company fleets.

While reading through this Directory, note the Reader Information Number—in the far right column—of models that interest you. Literature and additional information can be obtained by circling the number(s) on the postage-paid card provided (on page 17).

All of the information that you request will be sent directly to you by the automotive manufacturers.

AUTO SPECIFICATIONS

MAKE/MODEL	[illegible]	Doors	[illegible]	Weight	Front Seat [illegible]		Luggage Capacity (Cu. Ft.)	[illegible]	Engine	[illegible]		Reader Information Number
AMERICAN MOTORS CORP.												
Renault Alliance L and DL	[illegible]	4	[illegible]	1,993	[illegible]	[illegible]	13	[illegible]	4 Cyl	[illegible]	[illegible]	100
CHRYSLER CORP.												
CHRYSLER												
LeBaron	[illegible]	4	[illegible]	2,516	[illegible]	[illegible]	15	[illegible]	4 Cyl	[illegible]	[illegible]	101
LeBaron GTS	[illegible]	4	[illegible]	2,643	[illegible]	[illegible]	18.3	[illegible]	4 Cyl	[illegible]	[illegible]	102
5th Avenue	[illegible]	4	[illegible]	3,741	[illegible]	[illegible]	15.6	[illegible]	8 Cyl	[illegible]	[illegible]	103
New Yorker	[illegible]	4	[illegible]	2,757	[illegible]	[illegible]	17.1	[illegible]	4 Cyl	[illegible]	[illegible]	104
Town & Country	[illegible]	—	[illegible]	2,759	[illegible]	[illegible]	34.5	[illegible]	4 Cyl	[illegible]	[illegible]	105
Le Baron Coupe	Subcompact	2	[illegible]	2,690	[illegible]	[illegible]	14	[illegible]	4 Cyl	[illegible]	[illegible]	106
DODGE												
Charger	Subcompact	2+ Hatch	[illegible]	2,290	[illegible]	[illegible]	18.6	[illegible]	4 Cyl	[illegible]	[illegible]	107
Colt	Subcompact	4	[illegible]	1,975	[illegible]	[illegible]	10.9	[illegible]	4 Cyl	[illegible]	[illegible]	108
Aries	Mid-size	2	[illegible]	2,375	[illegible]	[illegible]	15	[illegible]	4 Cyl	[illegible]	[illegible]	109
	Mid-size	4	[illegible]	2,402	[illegible]	[illegible]	15	[illegible]	4 Cyl	[illegible]	[illegible]	
	Mid-size	Wagon	[illegible]	2,480	[illegible]	[illegible]	34.6	[illegible]	4 Cyl	[illegible]	[illegible]	
Diplomat	Mid-size	4	[illegible]	3,566	[illegible]	[illegible]	15.6	[illegible]	8 Cyl	[illegible]	[illegible]	110
Lancer	Mid-size	4	[illegible]	2,643	[illegible]	[illegible]	18.3	[illegible]	4 Cyl	[illegible]	[illegible]	111
Omni America	Compact	4	[illegible]	2,237	[illegible]	[illegible]	15.6	[illegible]	4 Cyl	[illegible]	[illegible]	112
Shadow	Compact	2/4	[illegible]	2,558	[illegible]	[illegible]	13.7	[illegible]	4 Cyl	[illegible]	[illegible]	113
600	Mid-size	4	[illegible]	2,594	[illegible]	[illegible]	17.1	[illegible]	4 Cyl	[illegible]	[illegible]	114

AUTO SPECIFICATIONS Continued

MAKE/MODEL	Size	Doors	Overall Length	Weight	Front Seat Head Room (Inches)	Front Seat Leg Room (Inches)	Luggage Capacity (Cu. Ft.)	Drive Unit Front/Rear 4-W	Engine	EPA (m.p.g.) City	EPA (m.p.g.) Highway	Reader Information Number
PLYMOUTH												
Caravelle	Mid-size	4	[illegible]	2,594	[illegible]	[illegible]	17.1	Front	4 Cyl	[illegible]	[illegible]	115
Colt	Subcompact	4	[illegible]	1,975	[illegible]	[illegible]	10.9	Front	4 Cyl	[illegible]	[illegible]	116
Colt Vista	Wagon	—	[illegible]	2,535	[illegible]	[illegible]	63.9	Front 4-W	4 Cyl	[illegible]	[illegible]	117
Gran Fury	Mid-size	4	[illegible]	3,566	[illegible]	[illegible]	15.6	Rear	8 Cyl	[illegible]	[illegible]	118
Horizon	Compact	4	[illegible]	2,237	[illegible]	[illegible]	15.6	Front	4 Cyl	[illegible]	[illegible]	119
Reliant	Mid-size	2	[illegible]	2,375	[illegible]	[illegible]	15	Front	4 Cyl	[illegible]	[illegible]	120
	Mid-size	4	[illegible]	2,402	[illegible]	[illegible]	15	Front	4 Cyl	[illegible]	[illegible]	
	Mid-size	Wagon	[illegible]	2,480	[illegible]	[illegible]	34.6	Front	4 Cyl	[illegible]	[illegible]	
Sundance	Compact	2/4	[illegible]	2,558	[illegible]	[illegible]	13.7	Front	4 Cyl	[illegible]	[illegible]	121
FORD												
Crown Victoria	Full-size	2/4	[illegible]	3,724	[illegible]	[illegible]	22.4	Rear	8 Cyl	[illegible]	[illegible]	122
		Wagon		3,920	[illegible]		88.2					
Escort	Compact	2/4	[illegible]	2,180	[illegible]	[illegible]	16.4	Front	4 Cyl	[illegible]	[illegible]	123
		Wagon	[illegible]	2,274			58.8					
Taurus	Mid-size	4	[illegible]	2,872	[illegible]	[illegible]	17	Front	4/6 Cyl	[illegible]	[illegible]	124
		Wagon	[illegible]	3,186	[illegible]		80.7			[illegible]	[illegible]	
Tempo	Compact	2	[illegible]	2,462	[illegible]	[illegible]	13.2	Front	4 Cyl	[illegible]	[illegible]	125
		4		2,515			12.9					
Thunderbird	Compact	2	[illegible]	3,133	[illegible]	[illegible]	14.6	Rear	6/8 Cyl	[illegible]	[illegible]	126
LINCOLN-MERCURY												
Colony Park	Full-size	Wagon	[illegible]	3,975	[illegible]	[illegible]	88.0	Rear	8 Cyl	[illegible]	[illegible]	127
Continental	Luxury	4	[illegible]	3,799	[illegible]	[illegible]	14.7	Rear	8 Cyl	[illegible]	[illegible]	128
Cougar	Mid-size	2	[illegible]	3,133	[illegible]	[illegible]	14.6	Rear	6/8 Cyl	[illegible]	[illegible]	129
Mark VII	Luxury	2	[illegible]	3,722	[illegible]	[illegible]	14.2	Rear	8 Cyl	[illegible]	[illegible]	130
Grand Marquis	Full-size	2/4	[illegible]	3,794	[illegible]	[illegible]	22.4	Rear	8 Cyl	[illegible]	[illegible]	131
Lynx	Subcompact	2/4	[illegible]	2,183	[illegible]	[illegible]	16.4	Front	4 Cyl	[illegible]	[illegible]	132
		Wagon	[illegible]	2,277	[illegible]	[illegible]	58.3	Front	4 Cyl	[illegible]	[illegible]	
Mercury Sable	Mid-size	4	[illegible]	3,054	[illegible]	[illegible]	18.5	Front	4 Cyl	[illegible]	[illegible]	133
	Mid-size	Wagon	[illegible]	3,228	[illegible]	[illegible]	81	Front	6 Cyl	[illegible]	[illegible]	
Topaz	Compact	2/4	[illegible]	2,503	[illegible]	[illegible]	13.2	Front	4 Cyl	[illegible]	[illegible]	134
GENERAL MOTORS												
BUICK												
Century	Mid-size	2/4	[illegible]	2,690	[illegible]	[illegible]	16.2	Front	4/6 Cyl	[illegible]	[illegible]	135
Electra Park Avenue	Full-size	2/4	[illegible]	3,205	[illegible]	[illegible]	16.1	Front	6 Cyl	[illegible]	[illegible]	136
LeSabre	Full-size	2/4	[illegible]	3,115	[illegible]	[illegible]	16.1	Front	6 Cyl	[illegible]	[illegible]	137
Regal	Full-size	2	[illegible]	3,172	[illegible]	[illegible]	16.2	Rear	6/8 Cyl	[illegible]	[illegible]	138
Riviera	Full-size	2	[illegible]	3,280	[illegible]	[illegible]	13.9	Front	6 Cyl	[illegible]	[illegible]	139
Skyhawk	Subcompact	2/4	[illegible]	2,343	[illegible]	[illegible]	13.4	Front	4 Cyl	[illegible]	[illegible]	140
Skylark	Compact	4	[illegible]	2,555	[illegible]	[illegible]	13.4	Front	4/6 Cyl	[illegible]	[illegible]	141
Somerset	Compact	2	[illegible]	2,551	[illegible]	[illegible]	13.4	Front	4/6 Cyl	[illegible]	[illegible]	142

The Ford Escort GT

1987 Buick Electra T Type

Selected 1987 Projected Ownership and Operating Costs

Make(1)	Model	[illegible] Head Room	Leg Room	Luggage Capacity	Weight	Overall Length	Drive Unit	Cyl	Displace	Annual Costs(2) For 20,000 Miles Operating	Ownership	Total
				(Cu. Ft.)	(Lbs.)				(Ltr.)			
Cadillac	DeVille	39.3	42.4*	15.9	3,367	196.4*	FWD	8	4.1	$1,390	$5,578	$6,968
Chevrolet	Caprice CL	39.3	42.2	20.9	3,620	212.8	RWD	8	5.0	$1,370	$3,945	$5,915
Oldsmobile	[illegible]	37.9	42.8	16.2	3,233	200.4	RWD	6	3.8	$1,230	$3,738	$4,968
Ford	Taurus LX	38.4	41.7	17.0	3,092	188.4	FWD	6	3.0	$1,200	$3,764	$4,964
Chevrolet	Celebrity	38.6	42.1	16.2	2,824	188.3	FWD	6	2.8	$1,270	$3,630	$4,900
Dodge	Caravan	[illegible]	[illegible]	40.4	2,911	175.9	FWD	4	2.2	$1,170	$3,552	$4,722
Ford	Tempo GL	37.5	41.5	12.9	2,515	176.5	FWD	4	2.3	$1,040	$3,491	$4,471
Chevrolet	Cavalier	38.5	42.2	13.6	2,347	174.3	FWD	4	2.0	$1,050	$3,352	$4,402
Plymouth	Reliant K	38.6	42.2	15.0	2,415	178.3	FWD	4	2.2	$1,030	$3,370	$4,400
Ford	Escort GL	37.9	41.5	16.4	2,222	166.9	FWD	4	1.9	$1,000	$3,174	$4,174

Footnotes:

(1)All four door cars similarly equipped including automatic transmission, power steering, power disc brakes, air conditioning, tinted glass, AM-FM radio (stereo when radio not available), body side molding, cruise control, and left-hand remote control mirror.

(2)Costs include operating expenses (fuel, oil, maintenance and tires), ownership expenses (insurance, depreciation, financing, taxes and licensing) and are based on a [illegible] miles retention cycle.

Source: Runzheimer International

AUTO SPECIFICATIONS Continued

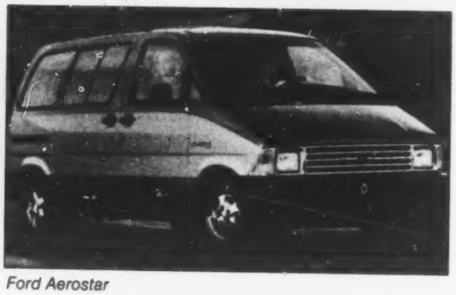
MAKE/MODEL	Class	Doors	Overall Length	Weight	Front Seat Head Room (Inches)	Leg Room	Luggage Capacity (Cu. Ft.)	Drive Unit Front Rear 4-W	Engine	EPA (m.p.g.) City	Highway	Reader Information Number
CADILLAC												
Allanté	Prestige	Convertible 2-door	178.6	3,494	37.2	43.1	13.0	Front	8 Cyl	NA	NA	143
Brougham	Full-size	4	221.0	4,045	39.0	42.0	19.5	Rear	8 Cyl	18	25	144
Cimarron	Compact	4	177.[illegible]	2,603	38.2	42.2	12.5	Front	6 Cyl	20	28	145
DeVille	Full-size	2 + 4 door	196.4	3,323	39.3	42.4	15.9	Front	8 Cyl	17	25	146
Eldorado	Full-size	2	188.2	3,355	37.8	42.7	14.1	Front	8 Cyl	17	25	147
Fleetwood D'Elegance	Full-size	4	—	3,438	39.3	42.4	15.9	Front	8 Cyl	17	25	148
Seville	Full-size	4	188.[illegible]	3,423	37.9	42.7	14.1	Front	8 Cyl	17	25	149
CHEVROLET												
Caprice	Full-size	2	212.2	3,512	38.5	42.2	20.9	Rear	6/8 Cyl	18	23	150
		4	212.[illegible]	3,510	39.3	42.2	20.9	Rear	6/8 Cyl	18	23	
		Wagon	215.1	4,114	39.6	42.2	87.9	Rear	8 Cyl	16	23	
Cavalier	Compact	2	172.4	2,300	37.7	42.2	13.2	Front	4 Cyl	25	33	151
		4	174.3	2,345	38.5	42.2	13.6	Front	4 Cyl	25	33	
		Wagon	174.[illegible]	2,412	38.3	42.2	64.1	Front	4 Cyl	25	33	
Celebrity	Mid-size	2	188.3	2,685	38.6	42.1	16.2	Front	4/6 Cyl	22	32	152
		4	188.3	2,715	38.6	42.1	16.2	Front	4/6 Cyl	22	32	
		Wagon	190.[illegible]	2,851	38.6	42.1	75.1	Front	4/6 Cyl	22	32	
OLDSMOBILE												
Calais	Mid-size	—	178.[illegible]	2,560	37.7	42.9	13.2	Front	4 Cyl	22	33	153
Custom Cruiser	Wagon	—	220.[illegible]	4,109	39.6	42.2	87.2	Rear	8 Cyl	16	24	154
Cutlass Supreme	Mid-size	—	200.4	3,233	38.7	42.8	15.2	Rear	6 Cyl	19	24	155
Delta 88 Royale	—	—	196.[illegible]	3,172	38.9	42.4	15.7	Front	6 Cyl	NA	NA	156
Fierenza	Compact	—	175.[illegible]	2,397	38.2	42.2	13.7	Front	4 Cyl	24	31	157
Ninety-eight Regency	—	—	196.4	3,304	39.3	42.4	—	Front	6 Cyl	NA	NA	158
PONTIAC												
Bonneville	Full-size	2/4	198.7	3,108	38.9	42.4	15.25	Front	6 Cyl	18	28	159
Grand Am	Compact	2/4	177.5	2,526	37.7	42.9	13	Front	4/6 Cyl	24/20	32/26	160
Pontiac 6000	Mid-size	2	188.8	2,600	38.6	42.2	16.2	Front	4/6 Cyl	23/20	32/27	161
		4	188.8	2,700	38.6	42.2	16.2	Front	4/6 Cyl	23/20	32/27	
		Wagon	193.2	2,860	38.6	42.2	74.4	Front	4/6 Cyl	23/20	32/27	
Sunbird	Compact	2	173.7	2,353	37.7	42.1	12.6	Front	4 Cyl	24	31	162
		4	175.[illegible]	2,412	38.5	42.2	13.5	Front	4 Cyl	24	31	
		Wagon	175.[illegible]	2,487	38.4	42.3	64.4	Front	4 Cyl	24	31	
ISUZU												
Mark I	Mid-size	4	160.2	1,937	37.7	41.7	11.3	Front	4 Cyl	33	39	163

AUTO SPECIFICATIONS Continued

MAKE/MODEL	[redacted]	Doors	[redacted]	Weight	[redacted]	Luggage Capacity (Cu. Ft.)	[redacted]	Engine	[redacted]	Reader Information Number
TOYOTA										
Camry	[redacted]	—	[redacted]	2,854	[redacted]	35	[redacted]	4 Cyl	[redacted]	164
Camry Sedan	[redacted]	4	[redacted]	2,734	[redacted]	15	[redacted]	4 Cyl	[redacted]	165
Celica Coupe	[redacted]	2	[redacted]	2,455	[redacted]	11.9	[redacted]	4 Cyl	[redacted]	166
Celica Liftback GT-S	[redacted]	3	[redacted]	2,685	[redacted]	25.2	[redacted]	4 Cyl	[redacted]	167
Corolla Liftback	[redacted]	5 + Hatch	[redacted]	2,187	[redacted]	35.6	[redacted]	4 Cyl	[redacted]	168
Corolla Sedan	[redacted]	4	[redacted]	2,134	[redacted]	12.7	[redacted]	4 Cyl	[redacted]	169
Cressida Sedan	[redacted]	4	[redacted]	3,295	[redacted]	13	[redacted]	6 Cyl	[redacted]	170
Cressida Mid-size Wagon	[redacted]	5	[redacted]	3,241	[redacted]	39	[redacted]	6 Cyl	[redacted]	171
Supra Liftback	[redacted]	3	[redacted]	3,457	[redacted]	12.8	[redacted]	6 Cyl	[redacted]	172

Isuzu Trooper II

Dodge Mini Ram Van


Ford Aerostar

MINI VAN/VAN SPECIFICATIONS

MAKE/MODEL	[redacted]	Doors	[redacted]	Weight	[redacted]	Carrying Capacity (Cu. Ft.)	[redacted]	Drive Unit Front/ Rear 4-W	[redacted]	EPA (m.p.g.) City	EPA (m.p.g.) Highway	[redacted]
AMERICAN MOTORS JEEP CORP.												
Cherokee	[redacted]	2 & 4	[redacted]	2,751	[redacted]	71.8	[redacted]	Rear	[redacted]	19	24	[redacted]
Cherokee and Wagoneer	[redacted]	4	[redacted]	3,084	[redacted]	71.8	[redacted]	4-W	[redacted]	19	23	[redacted]
CHRYSLER CORP.												
DODGE												
Caravan Extended Wagon	[redacted]	2	[redacted]	3,355	[redacted]	NA	[redacted]	Front	[redacted]	19	27	[redacted]
Mini Ram Van	[redacted]	3	[redacted]	2,875	[redacted]	133	[redacted]	Front	[redacted]	22	29	[redacted]
B150, 250 Van	[redacted]	4/6	[redacted]	3,615	[redacted]	206.6	[redacted]	Rear	[redacted]	16	20	[redacted]
B150 Wagon	[redacted]	4/6	[redacted]	4,030	[redacted]	NA	[redacted]	Rear	[redacted]	15	19	[redacted]
PLYMOUTH												
Voyager Extended Wagon	[redacted]	2	[redacted]	3,355	[redacted]	NA	[redacted]	Front	[redacted]	19	27	[redacted]
Voyager	[redacted]	—	[redacted]	3,030	[redacted]	125	[redacted]	Front	[redacted]	22	29	[redacted]
Caravan Wagon	[redacted]	—	[redacted]	3,030	[redacted]	125	[redacted]	Front	[redacted]	22	29	[redacted]
FORD												
Aerostar Van	[redacted]	—	[redacted]	2,991	[redacted]	172.4	[redacted]	Rear	[redacted]	26	28	[redacted]
Aerostar Wagon	[redacted]	—	[redacted]	3,304	[redacted]	139.2	[redacted]	Rear	[redacted]	17	22	[redacted]
Econoline Van	[redacted]	—	[redacted]	3,873	[redacted]	203.9	[redacted]	Rear	[redacted]	16	20	[redacted]
ISUZU												
Trooper II	[redacted]	2 & 4	[redacted]	3,421	[redacted]	79	[redacted]	Rear/ 4-W	[redacted]	NA	NA	[redacted]
TOYOTA												
Cargo Van	[redacted]	4	[redacted]	2,830	[redacted]	187.2	[redacted]	2-W Rear/ 4-W	[redacted]	22	24	[redacted]

LIGHT TRUCK SPECIFICATIONS

MAKE/MODEL	Class	Doors	Overall Length	Weight	Head Room (Inches)	Leg Room (Inches)	Carry Capacity (Cargo Space)	Carry Capacity (Weight)	Drive Unit	Engine	EPA (m.p.g.) City	EPA (m.p.g.) Highway	Reader Information Number
AMERICAN MOTORS JEEP CORP.													
Jeep Comanche	[illegible]	2	[illegible]	2,931	[illegible]	[illegible]	76.6	2,205	Rear/4-W	4/6 Cyl	[illegible]	24	187
CHRYSLER CORP.													
DODGE													
Dakota	mid-size pick-up	2	[illegible]	3,360	[illegible]	NA	—	2,550	Rear/4-W	4&6/6 Cyl	22	27	188
Ram 50	compact pick-up	2	[illegible]	2,735	[illegible]	42	88.3	1,610	Rear	4 Cyl	[illegible]	[illegible]	189
D150	full-size pick-up	2	[illegible]	3,660	[illegible]	NA	8 ft.	2,390	Rear	6/8 Cyl	[illegible]	20	190
D250	full-size pick-up	2	[illegible]	4,180	[illegible]	NA	8 ft.	4,330	Rear	6/8 Cyl	[illegible]	18	191
Power Ram W150	full-size pick-up	2	[illegible]	4,350	[illegible]	NA	8 ft.	2,200	4-W	6/8 Cyl	14	17	192
FORD													
Bronco	special purpose	—	[illegible]	4,588	[illegible]	41	—	1,250	Rear	6/8 Cyl	15	16	193
F-Series	standard pickup	—	[illegible]	3,571 3,974	[illegible]	[illegible]	—	1,225 2,125	Rear/2-W Rear/4-W	6/8 Cyl	17 15	19 16	194
Ranger	small pickup	—	[illegible]	2,600 2,833	[illegible]	[illegible]	—	1,220 1,225	Rear/2-W [illegible]		25 [illegible]	28 [illegible]	195

Isuzu P'UP Pickup

Ford F-Series Pickup

LIGHT TRUCK SPECIFICATIONS Continued

MAKE/MODEL	Class	Doors	Overall Length	Weight	Head Room (Inches)	Leg Room (Inches)	Carry Capacity (Cargo Space)	Carry Capacity (Weight)	Drive Unit	Engine	EPA (m.p.g.) City	EPA (m.p.g.) Highway	Reader Information Number
ISUZU													
P'UP—'86	Small Pickup	2	[illegible]	2,410	[illegible]	[illegible]	37	NA	Rear/4-W	4 Cyl (diesel/gas)	[illegible]	[illegible]	196
TOYOTA													
Standard Bed	Small Pick-up	2	[illegible]	2,515	[illegible]	[illegible]	NA	1,640	Rear/2-W	4 Cyl	[illegible]	[illegible]	197
Standard Bed	Small Pick-up	2	[illegible]	3,155	[illegible]	[illegible]	NA	1,400	Rear/4-W	4 Cyl	[illegible]	[illegible]	198
Long Bed	Small Pick-up	2	[illegible]	2,650	[illegible]	[illegible]	NA	1,640	Rear/2-W	4 Cyl	[illegible]	[illegible]	199
4Runner	Sports Utility	2	[illegible]	3,560	[illegible]	[illegible]	80.9	300	Rear/4-W	4 Cyl	[illegible]	[illegible]	200

TI Bets On Chips Again

CEO Jerry Junkins is charting a new course to recapture the U.S. giant's worldwide preeminence in semiconductors.

Junkins: Taking a short-term risk for long-term gain

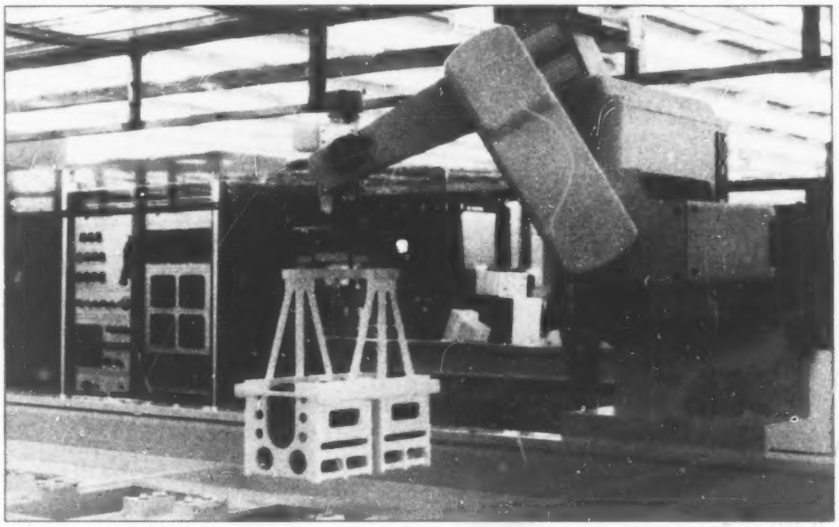
PHOTOGRAPH BY SHELLY KATZ/BLACKSTAR

When severe price cutting by the Japanese was driving other U.S. producers of high-volume memory chips out of the market in 1985, Texas Instruments Inc. steadfastly continued building two new state-of-the-art manufacturing plants—one in Japan and one near its Dallas headquarters. The Japanese plant has won accolades for quality-control standards, and the Dallas plant is the first in the U.S. to produce advanced one-megabit DRAMs, which hold 1 million units of data. Thanks to that investment, Texas Instruments is the only U.S. chipmaker today that can match Japan's manufacturing prowess. "It has emerged as the technology leader in the U.S. semiconductor industry," says Vice President Thomas P. Kurlak of Merrill Lynch & Co.

Plowing hundreds of millions of dollars into DRAM manufacturing when chip prices were plummeting was a big gamble for $5 billion-sales TI. But it was one that CEO Jerry R. Junkins considered essential to his stratagy for revitalizing the company's tired semiconductor business. "It's a short-term risk," Junkins says, "but there's a bigger risk to not doing it."

While beefing up technology, Junkins also has been streamlining the company. Back in the late 1970s, TI diversified vertically into home computers and consumer electronics products in order to lessen its dependence on the volatile chip market. But these businesses floundered, as did earnings. In early 1985, a disgruntled board of directors replaced CEO J. Fred Bucy with Junkins, then an executive vice president. Junkins immediately embarked on a stringent cost-cutting program and retrenchment in TI's money-losing business and got the company back in the black last year.

Given this recovery and its current edge in chip technology, TI has emerged from the semiconductor in-



DRAM clean room in Dallas: Part of TI's stepped-up program to automate operations

dustry slump in a strong competitive position. Analyst Rajiv Chaudri of Goldman, Sachs & Co. believes it is "the best-positioned U.S. company to take advantage of a recovery in the industry." And over the long term, Junkins' growth strategy gives TI a good chance of recapturing its worldwide preeminence in semiconductors.

A key part of that strategy is a radical change in marketing. Traditionally, TI simply sold standard chips off-the-shelf like commodities. The catalog was its major marketing tool. But like other chipmakers, it is now rushing to get into the fast-growing markets for microprocessors and semi-custom chips—complex components that require far more engineering expertise and marketing savvy than commodity chips.

To meet these new requirements, Junkins acknowledges, TI has to go after big customers directly and set up a marketing and service organization to work with them on a long-term basis and offer them extensive engineering support. "The whole business is becoming more oriented towards systems," he says. "That's forcing us to deal more directly with the needs of sophisticated users than in the past."

In a key move to implement his new strategy, two months ago Junkins named Executive Vice President William P. ("Pat") Weber to head the semiconductor division. The division has traditionally been run by chip-engineering types. Weber is a long-range planner with a strong background in electronic systems and marketing.

At the same time, Junkins put Executive Vice President William Sick (whom Weber replaced) in charge of developing major new customer alliances in the U.S. and abroad. Among other things, Sick will be courting strategic customers in the Far East—especially in Korea and Singapore, which are now the fastest-growing markets for semiconductors.

Sick will also be forging cooperative ventures with other semiconductor makers, particularly in Europe. The idea is to trade TI's manufacturing expertise for marketing arrangements and R&D sharing. Recently, for example, the company began a research venture with the Netherlands' N.V. Philips to develop and market a new line of chips. "Developing comprehensive product lines requires a large R&D investment," Sick notes, "and we're interested in opportunities to complement our strong manufacturing capability."

Texas Instruments still gets most of its estimated $1.8 billion semiconductor revenues from commodity chips. But it hopes to lessen that dependence as it builds up its microprocessor and semi-custom chip businesses. Industry analysts figure the $3.5 billion microprocessor market will soar to more than $10 billion by 1991, and much of that growth is expected to be in special-purpose microprocessors, the part of the market that TI is pursuing. "We need to focus our investment on longer-term growth trends than commodity businesses that can go down as fast they can go up," Junkins says.

TI is counting on three special-purpose microprocessors to keep it in the vanguard: a family of chips being used by computer makers to make their products compatible with IBM's new local-area network; a special signal-processing chip for communications equipment; and a microprocessor for graphics terminals.

Meanwhile, TI will pay a price for being noncompetitive in general-purpose microprocessors, which encompass the vast bulk of the market now. Its efforts to market a general-purpose microprocessor several years ago failed in the face of competition from Intel and Motorola, which now make the industry standards. "The lack of a general-purpose microprocessor is a glaring hole in TI's product line," Kurlak says. Furthermore, analysts believe it will be at least five years before the world needs a more advanced microprocessor and TI has another chance to get back in the game.

Semi-custom chips (ASICs) are being increasingly used by computer makers to make their products less expensive and more reliable. Through the miracles of modern chip technology, a single ASIC today does the same job that required hundreds-of-thousands of standard electronic parts a few years ago.

ASICs present an even bigger challenge than microprocessors to TI's catalog-oriented culture. They not only require a sensitivity to customers' systems engineering needs, but entail customer involvement in the actual design and production cycle of the product. The customer must either present its own design to TI or send engineers to design houses furnished by TI.

Crucial to TI's ASIC business, as well as to its overall strategy, is the ability to manufacture high-quality chips and deliver them quickly to customers. To that end, Junkins has stepped up efforts to automate all aspects of the company's operations and is investing heavily in computers and software for automating chip design.

For example, automation is being used to implement TI's current program to deliver all chips to customers free of defects, which is a common practice in Japan but unusual in the U.S. It involves routinely testing outgoing chips and automating production to reduce human contact with the chips. In the clean room of its DRAM plant in Dallas, for instance, TI built robots to handle silicon wafers during processing. And a computer system tracks each lot of chips and monitors variances in each stage of the manufacturing process.

Besides that, a TI pilot plant in Sherman, Texas, can deliver special-order chips in two weeks, compared with the industry's normal sixteen-to-twenty-week delivery schedule. That kind of response to rush orders is critical to the just-in-time delivery system TI is working to achieve. Currently, Sick says, 55% of its customers are getting just-in-time delivery.

TI also is trying to get its major customers to hook up directly to its internal computer network so that orders can be placed electronically, but only one customer is participating so far. "It isn't an easy idea to sell because the customer has to develop his own system to be compatible with ours," says a TI plant engineer. "But in a few years, it's the only way we'll do business."

THE MARKET LEADERS

TI is counting on advanced technology to help it regain preeminence in the world semiconductor market. Once Number One, it now ranks fifth in chip revenues.

COMPANY	SEMICONDUCTOR REVENUES 1986 EST. (billions)*
NEC	$2.64
Hitachi	2.31
Toshiba	2.26
Motorola	2.03
Texas Instruments	1.82
Philips/Signetics	1.36
Fujitsu	1.31
Matsushita	1.23
Mitsubishi	1.18
Intel	0.99

*SOURCE: Dataquest.

Essentially, Junkins is trying to apply the systems-oriented culture of TI's $1.5 billion-sales defense electronics business to the commercial semiconductor operation. The close working relationship between systems engineers at the defense electronics division and TI's military chip people is a model of the kind of synergy the company wants to achieve in microprocessors and ASICs.

Junkins would seem to be just the man to spearhead such an effort. As president of the defense electronics division, he played a key role in making it TI's most profitable division and, by most accounts, the best-run defense operation in the electronics industry. For instance, TI has lowered the price of the Air Force's HARM air-to-surface missile three times. "Never before has the U.S. government seen that kind of cost reduction," says Paul Johnson, senior technology analyst at L.F. Rothschild, Unterberg, Towbin.

TI is counting on its advanced research in artificial intelligence to provide some of the needed leadership in systems engineering. AI researchers have already come up with one innovation for the Defense Department: the first microprocessor designed for the AI computer language called LISP. Embedded in, say, a cruise missile, the LISP chip could make extremely fast AI calculations, enhancing the missile's capability to perform any of a number of different tasks, such as recognizing its target by analyzing an infrared image. This technology has potential for many commercial applications.

Junkins still has a long way to go in implementing his reforms. Instilling a service-oriented culture throughout an organization long known for its arrogance will not be easy. And keeping key people will be vital. The list of company executives who left for greener pastures in the early 1980s was so long that employees jokingly said TI stood for "Training Institute." Industry observers believe that Junkins' low-key management style, a sharp contrast to that of autocratic Fred Bucy, has already made a difference. "Junkins has put together a more flexible and forward-thinking management," says analyst Richard Wittington of Prudential-Bache Securities.

Besides that, the company is still too dependent on standard chips, a dwindling market. And overall financial performance, though improving, is nothing to write home about. After losing $119 million in 1985, the company earned an estimated $39 million last year. But revenues remained flat at around $4.9 billion.

This year, though, analysts expect TI to rebound strongly, even if the semiconductor industry upturn is modest. Current estimates call for profits of more than $200 million on a 12% rise in revenues to $5.5 billion. And down the road, they say, TI could find itself once again on top of the world.

—FRED V. GUTERL

it, and he must pay taxes on $10,000. At the new top tax rate of 28%, he pays $2,800, which is a better deal than shelling out $10,000 in interest payments to a bank, says George E. Paulin, compensation consultant at Frederick W. Cook & Co.

Lunch club and country club membership privileges are endangered. Picking up on former President Jimmy Carter's well-remembered attack on "the three-Martini lunch," Congress has limited the deductibility of business meals and entertainment to 80% of their actual cost. As a result, says John Sanders, vice president at consultants A.S. Hansen Inc., companies will clamp down on executives' use of club memberships.

What perks, then, should executives be bargaining for these days? Thanks to the new maximum tax rate of 28%, the personal use of company cars and planes, car phones, home computers and other taxable perks cost less than at any time since the 1984 tax law began to tax these privileges. Take the company car, for example. If the executive incurs $5,000 in annual expenses with half for business and the balance for personal use, he is charged with $2,500 in ordinary income on his W-2 form. Under the former 50% tax rate, he would have been socked with a $1,250 tax bill, while now the bite is only $700, says Gary C. Hourihan, president of the compensation consulting division of Management Consulting Group.

However, executives may have to bargain harder for some perks. Under the new tax law, executives are paying lower taxes, but companies are paying more. For example, the elimination of the investment tax credit and longer depreciation schedules have made ownership of an automobile fleet a much more expensive proposition. As a result, says Hourihan, many are getting rid of their fleets and turning to leasing.

But it is up to the executive to dicker for the best deal. If the company handles the leasing arrangements in a way that minimizes its costs, he may find it more advantageous to ask for an annual cash allowance and lease the car directly. If the company insists on a plain, no-frills vehicle, for example, and he, for status reasons, wants a fully loaded Mercedes, the cash allowance gives him the freedom of choice. Of course, he still has to account for his personal use of the car and pay the required taxes. But as Hourihan says, "It's incumbent on executives to choose the method that meets their personal needs the best."

In the longer run, perks may be on the way out. Companies are becoming increasingly sensitive to their perceived elitist status. At a time when workers are being laid off to cut expenses, government, shareholder and labor critics are pressuring management to give up their company-paid goodies. Ross Perot's attack on heated garages for General Motors' top executives is an example. With the value of perks now averaging $10,000 per executive, cold cash might be the best bet for managers and companies alike. ■

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

	(12/31/86)	Value of $10,000 if invested:	
INVESTMENT	**Recent Price or Yield**	**Month Earlier**	**Year Earlier**
Common Stock (Index fund, capital gains and dividends reinvested)	**$24.27/share**	$9,736	**$11,806**
per cent change		−2.6%	**+18.1%**
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	**$135.50**	$9,904	**$11,896**
ACCUMULATED INCOME		$71	**$1,031**
TOTAL		$9,975	**$12,927**
per cent change		−.3%	**+29.3%**
Money Market Fund	5.45%	$10,046	**$10,626**
per cent change		+.5%	**+6.3%**
Gold (Krugerrands)	**$407.00/oz.**	$10,409	**$12,124**
per cent change		+4.1%	**+21.2%**
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	**$115,100**	$110,700	**$100,800**
per cent change		+3.8%	**+12.4%**
New House	**$122.800**	$124,200	**$111,500**
per cent change		−1.1%	**+9.2%**

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes,Inc.; Federal Home Loan Bank Board.

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CORPORATE AMERICA'S MAGAZINE

BUSINESS MONTH

FORMERLY DUN'S BUSINESS MONTH

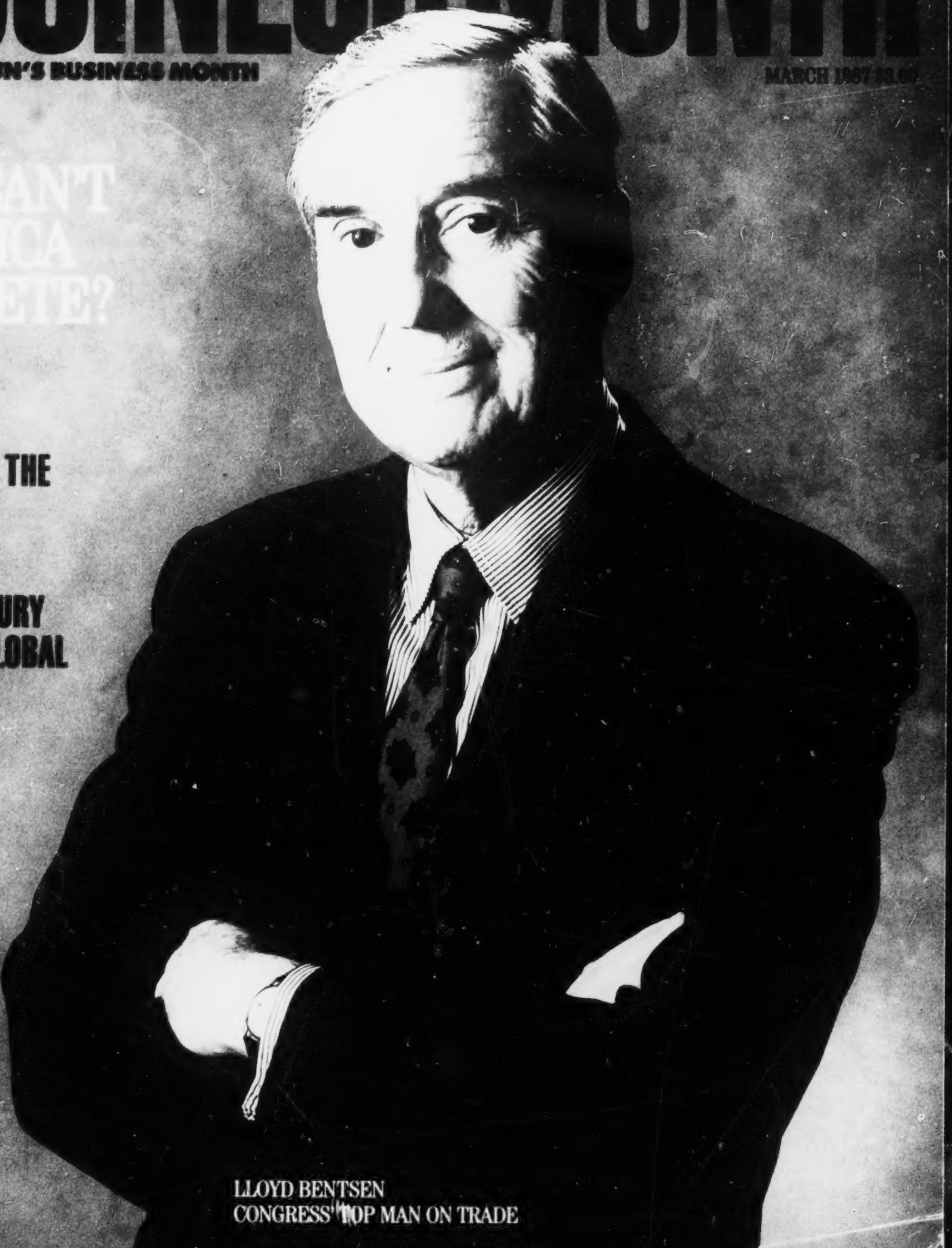
MARCH 1987 $3.00

WHY CAN'T AMERICA COMPETE?

CFOS IN THE TRENCHES

U.S. STOCKS THE JAPANESE ARE BUYING

FRENCH LUXURY GOODS GO GLOBAL



LLOYD BENTSEN
CONGRESS' TOP MAN ON TRADE

BUSINESS MONTH

Feature Departments

MONEY & MARKETS

CFOs in The Trenches 24
Financial execs are fighting takeovers sharks, contriving equity and debt offerings and getting into international finance. Those who perform get paid big.

What Are The Japanese Buying? 27
Armed with high-flying yen, they're amassing blue-chip stocks, especially U.S. names known in Japan.

INTERNATIONAL

French Luxury Goods Go Global 32
The prestige purveyors of stylish living are on an empire-building spree, sending their operations as well as products around the world.

- **Moët: From Champagne to Roses** 32
- **Refashioning Yves Saint Laurent** 34
- **A Monogram Known Around The World** 35

SPECIAL REPORT

Why Can't America Compete? 39

WASHINGTON

Why Lloyd Bentsen Will Get His Trade Bill 40
A profile of the savvy Senate Finance chairman and his game plan to produce strong trade legislation.

PRESIDENTS' PANEL

In a Bind: CEOs Want and Fear Federal Help 44

INDUSTRIES

Trying to Survive in a Changing World 46
Government efforts to maintain machine-tool capacity will not deter the industry shakeout or keep production here.

- **Will We Lack Machine Tools for The Next War?** 48

TECHNOLOGY

MCC: The Dilemma of Joint Research 49
The high-tech industry co-op has produced impressive advances, but corporate secrecy is torpedoing the effort to turn them into products.

- **Conflict at Bellcore** 51

HUMAN RESOURCES

A Consensus on Helping Idled Workers 54
The private sector is waking up to the right way to spur reemployment. Can government learn from the past?

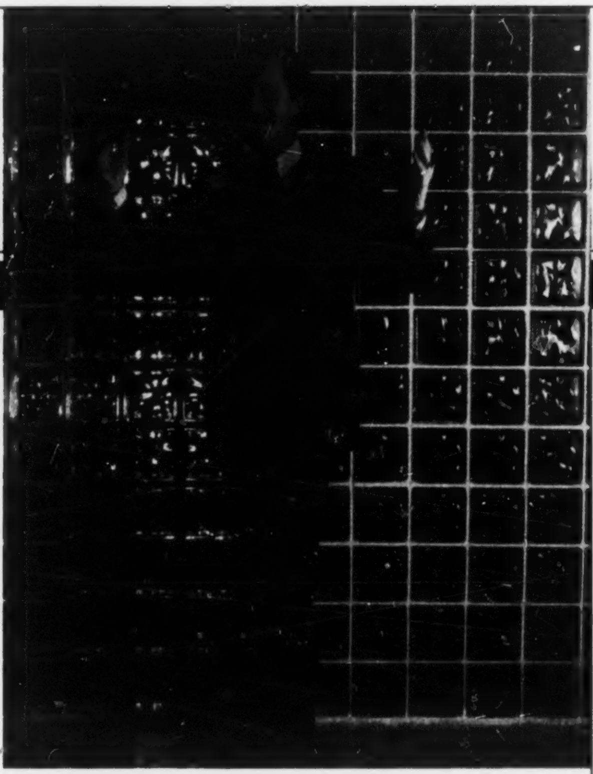
MANAGEMENT

Wanted: The Boomerang Executive 58
Fast-track executives who left the corporate fold for greener pastures are coming home again to better positions.

49

COVER PHOTOGRAPH BY ROB KINMONTH

March 1987, Vol. 129, No.3



60

MARKETING

One-Stop Shopping for Marketing 60
Marketing Corp. of America is building a $300 million conglomerate that does it all—from product conception to advertising.

Flower Power In the Supermarket 62
The poop on posies is color them green. Fresh-cut flowers are now one of the hottest selling and highest margined items in the supermarket.

Letters 5
Drug lobbyists battle.

Managers in The News 7
Grove: Intel's New Big Chip.

Managing Information 67
Spreadsheet clones pressure Lotus.

Personal Finance 81
More Steam Yet In the Bull.

Dealing with Defenestration: Negotiate. 82

Investment Update 84

The Business Month

WASHINGTON

- *End of Reagan revolution?* 9
- *President backs health care*
- *Trustbusters stir*

ECONOMY

- *Economy brightens* 9
- *Baker's dollar strategy*
- *Upswing in profits*

INDUSTRIES

- *New toys for Baby Bells* 10
- *Big Blue's woes*
- *Pleasure flying up*
- *Maxi-Savers open the door*
- *Detroit's warranty war*

MANAGEMENT

- *USG's smoking ban* 14
- *GM's downsized annual*
- *What stake for directors?*

MONEY & MARKETS

- *Corrigan plan picks up steam* 15
- *Gold mining's allure*
- *Insider scandal spreads*

INTERNATIONAL

- *An SEC for Britain?* 16
- *Kohl's dilemma*

ADVERTISING

- *Troubles at JWT* 19

COMPANIES

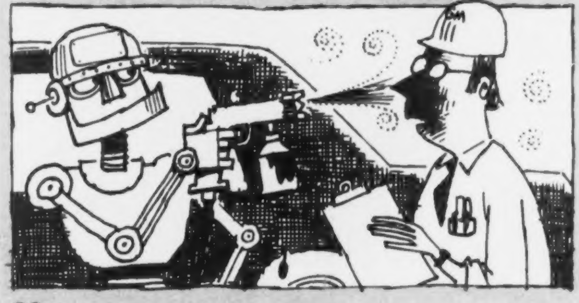
- *Apple pursues office market* 19
- *Kaiser files Chapter 11*
- *Cutting costs with H.O.T.*
- *Merger roundup*

TECHNOLOGY

- *GM fires robots* 20

MARKETING

- *Southwestern Bell's bad-times ad* 20



20

suing commercial paper to refinance part of the General Foods purchase. Indeed, he has built an operation that is as independent from Wall Street as possible. Storr set up Philip Morris Credit Corp. in 1982 as an in-house financing arm and is constantly adding to his international borrowing capability. "You can't be a chief financial officer without knowing international markets," he says.

CLAYTON STEPHENSON
UNION CARBIDE

J. Clayton Stephenson spent twenty-five years running various Union Carbide chemical operations before finding himself in a brutal takeover battle as the company's CFO. When GAF's Samuel J. Heyman started amassing Carbide's depressed stock in the wake of the 1984 Bhopal disaster and then bid to take it over, Stephenson masterminded the defense.

That defense gutted the company and burdened it with debt, but also rewarded shareholders handsomely. Carbide paid out $4.3 billion to them in a tender package and a special $33 dividend. "We said, 'If someone is going to get some money on this, we want it to be our shareholders, not his'," says Stephenson. The scorched-earth tactics boosted the stock price from $7 to $22 in twelve months. The bottom line: Sam Heyman went away.

The most important step was the first, Stephenson says: a strategy to get the stock price up, backed by the Carbide board and ready to go when the GAF bid hit the wires. Half measures wouldn't work, Stephenson told his board.

Carbide bit the bullet. Beginning in mid-1985, the company sold off its prized consumer products division, junked its five-year diversification plan and slashed 4,700 employees from its payroll. By 1986, it had shrunk from a $9.5 billion company to a $6.3 billion company. When GAF withdrew its $5 billion bid in January 1986, Carbide's equity was a quarter of its original size and it had doubled its debt with a flood of junk bonds.

The recapitalization plan that came next was equally grueling. "I sat down and had lunch with Pete Buchanan of First Boston one day in the fall of 1986," Stephenson recalls. "I said, 'This is what we are at the moment. I think there's a lot of investment banking opportunities in this. Why don't you guys come and talk to us?' "

First Boston CEO Buchanan not only came and talked, he and Stephenson worked out a $3 billion plan to refinance the junk debt that included selling Carbide's new headquarters in the bucolic Connecticut hills and borrowing $1 billion from First Boston itself. Carbide raised the rest by selling off more assets and issuing $585 million in common shares, its first stock offering since 1917.

Stephenson says his operating background was invaluable. He started as an accountant with Carbide fresh out of Yale with a degree in economics, but after seven years in finance, switched to the operating side until he was named CFO. "That experience in the operating division made the financial fall into perspective," he says.

Operational management also made Stephenson a no-nonsense manager and planner. Fighting a raider is not that much different from building a new plant, he says. If you're going to do it, do it. "Don't peck away," he says. "Bang, get it done. None of it would have worked if everything hadn't worked. And that kind of planning is the contribution that a guy in this role makes."

Stephenson gives plenty of credit to his investment bankers, First Boston and Morgan Stanley & Co. "We learned more corporate finance in twelve months than most people learn in a career," he says. His advice: "Really know your bankers. Work at the task of visiting with them and knowing them at all levels. Then when you've got a problem like this, you're starting from a knowledge base."

Last December, after the dust settled, Stephenson was rewarded by being appointed vice chairman as well as CFO and is now considered Number Two in line for the presidency. A robust man with a hearty voice, he offers no excuses for Carbide's failure to take its draconian steps until the GAF wolf was at the door. Why didn't the company get its stock price up sooner? "When did I stop beating my wife?" he answers with a smile. "Yes, we should have done this in 1981. The fact is we didn't. I could be very bitter, very unhappy. I'm not. It's been a very therapeutic experience." ■

WHAT U.S. STOCKS ARE THE JAPANESE BUYING?

The Japanese are funneling billions into the U.S. stock market. What do they like?

by David Kiley

Japanese money is pouring into the U.S. stock market at a record rate—$17 billion in the first nine months of last year alone, perhaps twice that this year. What are the Japanese buying? Judging from volume in the 32 U.S. stocks now listed on the Tokyo Stock Exchange, Japanese investors like the icons of America.

"Japanese buy blue-chip stocks, especially ones with tradition, because they believe they are buying into American power," says Motoi Okada, executive vice president of Daiwa Securities America Inc. The heaviest volume on the Tokyo Exchange in January, for example, was in American Express, Dow Chemical, Disney, Merrill

Lynch, IBM and Citicorp. Philip Morris, Sears and First Chicago also showed big percentage increases between January 1986 and January 1987.

Japanese can invest either through the TSE or U.S. exchanges. The institutions buy in New York to have access to the full range of American stocks. Thus the table *(right)* largely reflects trading by individual Japanese. But analysts say it is a good indicator of overall trends.

Clearly, the image of the company in Japan is important. Disney, for example, is well known because of the tremendous popularity of the Disney theme park that opened in Tokyo in 1983 and the wide range of Disney products marketed in Japan.

But Japanese investors also keep up with the financial performances of their U.S. investments. Trading fell off heavily between January 1986 and January 1987 in such issues as ITT, General Motors and BankAmerica, all of which had earnings problems.

Japanese institutions buy many stocks that are not yet listed on the Tokyo Exchange—for example, Digital Equipment and Cray Research, both market leaders in an industry important to the Japanese. Dun & Bradstreet, Federal Express and Abbott Labs are also on Okada's buy list, as well as utilities such as Nynex Corp., Bell Atlantic Corp., Duke Power Co. and Citizens Utilities, an over-the-counter stock.

Institutions also share individuals' enthusiasm for TSE-listed U.S. blue chips, though. These are the best understood U.S. stocks, after all. "The Japanese buy into companies they understand from their own experience and which have a large market presence in Japan," says Michael Metz of Oppenheimer & Co.

Public interest in Japan increased sharply after the U.S. stock market's record 60-point September drop. In November, NHK, the Japanese national broadcasting network, devoted a special program to the U.S. market. "I think that was a turning point in Japanese awareness," says Okada.

Now, the Japanese are third behind Great Britain and Switzerland in foreign equity investment in the U.S., and increasing their holdings at a faster pace. The $17 billion that flowed in last year through September was more than twice the total for all of 1985 and many times the $2.7 billion of 1984. If the yen remains stable, Okada believes the Japanese could put at least $25 billion into U.S equities this year. P. Maureen White, manager of international research for The First Boston Corp., wouldn't be surprised if it's much more, perhaps $34 billion.

The fact is, the U.S. stock market has become a better buy for the Japanese than their own *(see page 81)*. The Nikkei Dow Jones Index of Japanese stocks gained 42% in 1986. Price/earnings ratios on the TSE are at astronomical levels of fifty or sixty compared with about seventeen in the U.S. Moreover, the average yield on U.S stocks is about 3.4%, versus about 0.6% for Japanese stocks.

Too, the government raised the limit on Japanese institutional investment outside the country from 10% of total portfolios to 30%.

Although U.S. brokers and investment bankers are steadily gaining visibility in Japan—so far fourteen American investment banks have set up shop in Tokyo—the Big Four (Daiwa, Nomura Securities, Nikko Securities and Yamaichi Securities) are still the brokers Japanese listen to, says one Wall Street analyst. "It's one thing for Merrill Lynch to tell Japanese investors to put their money into U.S. equities, but it didn't happen until Daiwa and Nomura said so," he says.

Substantial Japanese investment in U.S. equities will continue, says Okada, as long as the necessary conditions exist: A stabilized yen, the lower dollar, the high prices of Japanese stocks and the expanding presence of Japanese investment firms in New York. Only a catastrophe in the market would shut off the flow otherwise, he says. And even then, it would not be permanent. The Japanese, he says, are in the U.S. stock market to stay. ■

NOT MADE IN JAPAN

The number of U.S. issues on the Tokyo Exchange more than doubled in the past year, with the fourteen trading for the full year showing a 186% rise in volume.

	TRADING VOLUME	
	JANUARY 1987	JANUARY 1986
American Express	3,576,300	•
Dow Chemical	1,769,200	57,800
Disney	1,721,450	358,050
Merrill Lynch	1,379,500	296,600
IBM	847,890	350,580
Citicorp	799,100	1,299,600
PepsiCo	763,500	•
Philip Morris	690,650	108,370
Sears, Roebuck	414,650	85,250
McDonald's	414,150	•
Exxon	312,700	•
Weyerhaeuser	311,700	•
First Chicago Corp.	294,400	15,600
Waste Management	285,750	•
Procter & Gamble	275,500	•
US West	271,300	•
Eastman Kodak	209,300	•
FPL Group	195,700	•
Eli Lilly	166,200	•
RJR Nabisco	140,000	•
Bell Atlantic	132,750	•
General Motors	83,250	48,400
3M	64,280	15,860
Chrysler	46,300	•
Ameritech	41,250	•
E.I. duPont de Nemours	27,000	•
SmithKline Beckman	24,550	•
ITT	21,700	81,400
Security Pacific	18,950	26,050
Bank America	9,700	62,500
IU International	8,300	•
Chase Manhattan	2,500	27,150

• Not traded in Jan. 1986

Source: Tokyo Stock Exchange

Trying to Survive In a Changing World

Neither government help nor better machine tool industry management will reverse the shakeout ahead.

by Marc Levinson

By all rights, America should be king of the machine tool trade. When it comes to drilling, cutting, grinding and shaping metal parts for everything from gears and pistons to rifle tubes, U.S. companies produce technologically advanced machines that no other country can match.

Instead, the industry is mired in troubles. Nearly 50% of the machine tools shipped to U.S. factories came from abroad last year, while domestic makers' shipments of $2.8 billion were barely half their 1981 highs. Since 1982, hundreds of firms have shut their doors and industry employment has plummeted from 98,000 to 50,000.

In the current debate over America's international competitiveness, machine tools is precisely the kind of basic industry the politicians want to preserve. And their concern is justified: Capital goods are the vital core of the country's industrial base and its national defense (*see box, page 48*).

But the crusade to save machine tools exemplifies the difficulty of designing a "competitiveness policy." Foreign competition bears little responsibility for the industry's woes. Largely to blame are poor management, a sharp slump in capital spending that robs the industry of revenues, the cyclicality that has sapped the financial resources of small tool shops and the development of plastic and composite materials that are making traditional metalworking machine tools obsolete.

The federal government has made one of its strongest commitments to help this small but vital industry. In December, President Reagan announced a five-year program of import quotas, research grants and closer ties with defense projects. Congress chimed in, requiring the Defense Department to buy only machine tools made in the U.S. or Canada. These measures are the leading edge of policy thinking about aiding depressed industries.

The government negotiated five-year voluntary import restraint agreements (VRAs) with Japan and Taiwan and threatened similar steps against Swiss and German producers. These actions should keep prices up, much as they have with Japanese autos.

Privately, many in the industry admit that, more than anything else, bad decisions of years past haunt tool builders today. When the auto and aircraft industries retooled in the late 1970s, tool builders had more work than they could handle. Many focused on highly sophisticated, multimillion-dollar products: hundred-yard-long automated lines to bore holes in tens of thousands of engine blocks, or flexible manufacturing systems that turn out thousands of different parts in any order without the help of a human hand.

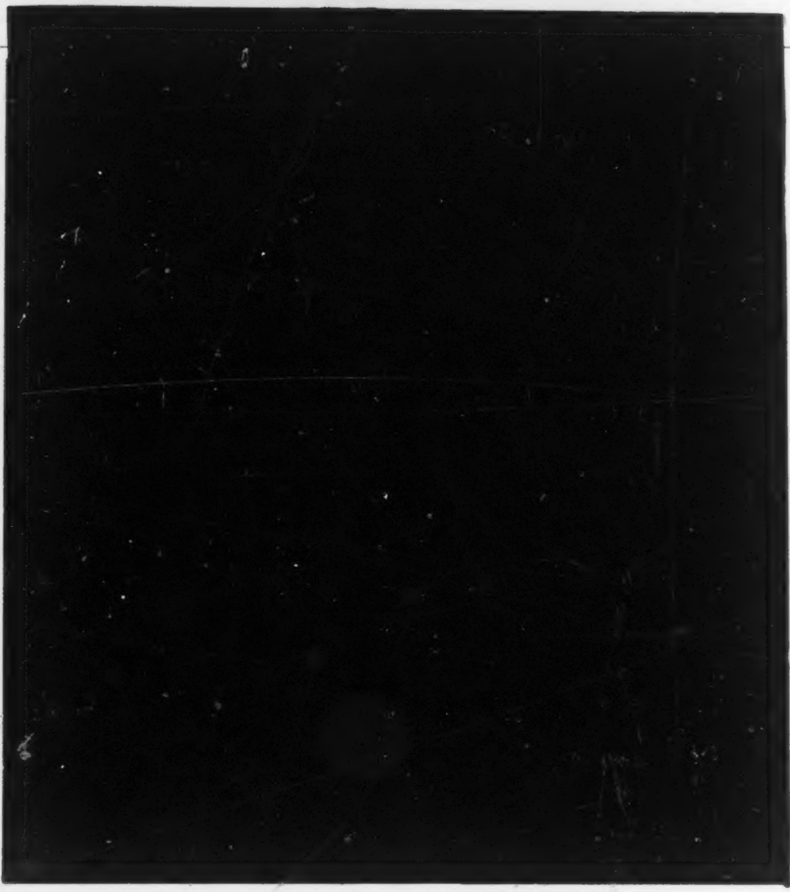
Customers seeking to spend, say, $300,000 for a standard numerically-controlled milling machine faced long waits and high prices. "Lead times had gotten rather long," suggests J. David Morrissy of the Office of the U.S. Trade Representative. "That impelled a lot of users to look overseas."

Meanwhile, Japanese tool builders marketed computerized stand-alone units. And producers in Taiwan zeroed in on the bread-and-butter, low-tech market, such as non-numerically-controlled lathes.

The Japanese had few direct competitors in the mid-tech market: The U.S. giants pursued the higher-tech segment and the machines of smaller U.S. shops were often technologically backward. In the low-tech sector, U.S. makers had no technological edge and higher labor costs. By 1986, seven out of ten machining centers sold in the U.S. came from Japan.

With imports dominating the middle- and low-tech markets, small U.S. companies were pushed to the margin. Ironically, the industry giants' strategy also came a cropper. When the totally-automated factory turned out to have limited commercial appeal, the leading firms were left holding some of the world's most advanced technology—without buyers.

The industry was painfully sorting out its problems long before it caught the Administration's attention. Left to their own devices, tool builders



slimmed down, merged, restructured, discarded unpromising businesses, adopted new marketing strategies and sought out new partners. Says Joe Franklin, administrative director of the National Machine Tool Builders' Association, "We've seen in this industry a significant case of structural change."

Large American manufacturers began changing their product lines to recapture the mid-tech market. They started promoting individual machines designed to be integrated into systems later, if the need develops. "We have moved down in the market to pick up the smaller customer," confesses William Fife, president of Cross & Trecker Corp.'s Kearney & Trecker unit. "We're trying to go back to the fifty-employee, mom-and-pop machine shop and sell them a plain vanilla machine."

Nevertheless, the relatively well-heeled U.S. majors still labor under marketing disadvantages. For one, there are large inventories of foreign machines overhanging the market. For another, some U.S. companies lack distribution networks to sell smaller products. For example, Kearney & Trecker, which uses a direct sales force for its customized manufacturing systems, has few ties to the dealers who sell standardized machines.

Moreover, there isn't much demand for new machine tools. With only 79% of America's manufacturing capacity in use, laments Harry A. Hall, senior vice president of Giddings & Lewis Machine Tool Co., "there's not a big market left for U.S. builders to fill."

In the short term, the VRAs will enable the large companies to maintain their current operations in the U.S. But they are already casting about for foreign production sites for the day when the VRAs come off. Cross & Trecker sees its new licensee in India as a potential supplier for the U.S. market. Cincinnati Milacron is eyeing Southeast Asia. Adds Gidding & Lewis' Hall, "You've got to be vertically integrated on a global scale now."

No matter what the exchange rate, few people expect that the assembly of standardized machine tools will remain in the U.S. What will remain is the manufacture of complex systems.

By the end of the decade, observers contend that the industry will be dominated by a relative handful of large companies: Cross & Trecker, now the country's largest tool builder; Cincinnati Milacron Inc.; Giddings & Lewis, a unit of AMCA International Ltd; privately-held Ingersoll Milling Machine Co.; and three or four others.

The VRAs are unlikely to reverse the competitive disadvantages of the smaller firms. As the rate of technical innovation accelerates, the day of the independent local tool builder is rapidly fading. The important differences between machines nowadays lie in the computer software that runs them, not in their physical design. Predicts Cross & Trecker CEO Richard T. Lindgren: "A company that wasn't strong enough to make it before the VRAs is not going to be strong enough to make it after the VRAs."

Two federal programs are designed to help the smaller firms compete. The Administration pledged $15 million for a National Center for Manufacturing Sciences to do cooperative industry research. And the National Bureau of Standards is working on standardizing communications protocols, so a manufacturer could integrate a machine

WHO'S MAKING MACHINE TOOLS?

Here are the worldwide sales of the largest companies with substantial machine tool manufacturing in the United States.

Company	**1985 Sales** *(millions)*
Cross & Trecker	$423.3
Cincinnati Milacron	325.8
Yamazaki Machinery Works	275.0
Lamb Technicon	225.0
AMCA	180.0
Oerlikon Buerhle	170.0
Ingersoll Milling Machine	165.0
Litton Industries	145.0
Gleason Works	137.7
Esterline	135.9

Source: American Machinist

from a small tool builder into a system alongside other producers' equipment.

But these efforts will be too little and too late for firms such as Cincinnati's Lodge & Shipley Co., which is selling out to Belcan Corp., an engineering company. After 95 years in the lathe business, Lodge & Shipley can't keep itself in the technological forefront. "The further we got into that kind of effort, the more we realized the importance of control engineering," says William L. Dolle Jr., the company's president. "We got into projects where the engineering hours were greater than the direct labor hours."

Nor will import restrictions find customers for the smaller firms. For example, Wedco Technology, Inc., has lost money ever since it bought its way into machine tools three years ago, according to Vice President William C. Willoughby. Wedco's machine tool operation is now on the block.

A larger tool builder, Willoughby believes, could find economies of scale in engineering and bid preparation that Wedco's sixty-employee Wadell Equipment Co. in Edison, New Jersey, cannot. "It's not a market the Japanese are after. It's just a market that's extremely expensive to deal with. There are not too many customers," Willoughby says.

Government programs also fail to address the industry's long-term problem: a changing world. Many parts nowadays are made of plastics or lightweight composites that don't require extensive machining. "We've changed materials," says Cincinnati Milacron Chairman James A. D. Geier. "Things are no longer going to be built out of the materials they were built out of."

Thus, the need for machining of metal is diminishing. Even if the plastic piston doesn't arrive tomorrow, there may be new ways of making it out of metal, says Arthur D. Little & Co. consultant Harry Mathews. "There are new technologies," he reports. "They can do casting and molding of very complex and finished metal parts. So when you look in the future, you see a reduced need for machine tools."

And what about American competitiveness? To answer that question, another must be asked: What do we mean by competitiveness?

If the survival of U.S.-based manufacturers of machine tools is at issue, the government needn't worry. After five years of intense restructuring, the industry's leaders are positioned to survive. They have slashed capacity and fended off Japanese companies that have sought to establish bases in the U.S. The Reagan Administration's program will augment their profits in the short run and slow the invasion of imports.

If "competitiveness" means maintaining a large machine-tool manufacturing base in the U.S., the Administration's current policies can not help to reverse the technological changes that are shrinking demand for traditional machine tools. To prepare for this new world, the machine tool giants are already diversifying into new businesses. Milacron has spread into plastics machinery and Cross & Trecker has a new software subsidiary. Ex-Cell-O Corp., another of the industry's long-time leaders, had transformed itself from a machine tool manufacturing company into a diversified industrial concern before Textron Corp. snapped it up last fall.

Such diversification is clearly not what those concerned about machine tool "competitiveness" have in mind. But it represents a predictable commercial response to the realities of the market, economic realities the government is mistaken in trying to second-guess. Attempting to keep the U.S. strong in sectors that are declining is a recipe not for competitiveness, but for obsolescence.

WILL WE LACK MACHINE TOOLS FOR THE NEXT WAR?

Imagine a major war. Without a large machine tool industry, what would the country do?

That national security concern is the rationale for the Reagan Administration's program to help the tool builders. Modern tanks and aircraft use metal parts that require highly precise machining. If the machine tool manufacturing base shrinks further, Defense Department analysts worry, it will endanger America's ability to wage a prolonged conflict.

But it was the tool industry, not the government, that first raised the national security issue, in its petition for import quotas. The reason: The government can grant trade relief for defense reasons even when an industry is not seriously injured by imports—a case the tool builders couldn't make.

Edson I. Gaylord, president of Ingersoll Milling Machine Co. in Rockford, Illinois, and an outspoken opponent of protection, contends that national defense is a red herring. "If it's a fifteen-minute war, you don't need stuff like machine tools," Gaylord argues. "If it's a long drawn-out affair like the 1940s, that involved all of American industry. To pick out one little sector and say this is essential is absurd."

The government's program assumes that five years of protection will assure the industry's survival. But it is unlikely tool builders will voluntarily maintain the vast capacity required for defense production at a time when non-defense customers are vigorously seeking ways to avoid machining metal. "That's the kind of process other industries are trying to get away from, because it's so expensive," asserts analyst John Alic of the Office of Technology Assessment.

Measures to steady the flow of defense orders, easing the industry's cyclicality, would probably help more than protection to keep tool builders in business. In the long run, if the Defense Department wants to keep the nation's machine tool plant at its present size, it may have no choice but to foot the bill.

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INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(1/30/87) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$27.49/share	$11,327	$13,316
per cent change		+13.3%	+33.2%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$136.23	$10,053	$11,526
ACCUMULATED INCOME		$72	$994
TOTAL		$10,125	$12,520
per cent change		+1.3%	+25.2%
Money Market Fund	5.50%	$10,046	$10,612
per cent change		+.5%	+6.1%
Gold (Krugerrands)	$409.00/oz.	$10.049	$11,619
per cent change		+.5%	+16.2%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$105,200	$116,100	$100,800
per cent change		−10.4%	+4.2%
New House	$133,400	$124,800	$110,000
per cent change		+6.4%	+17.5%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes,Inc.; Federal Home Loan Bank Board.

If holding on to your job as long as possible is your main aim, you may convince your boss to let you stay on for a year or two longer at full pay until the company can find or train an adequate replacement, and then give you a special severance agreement as a reward. Your best approach is a direct one. For example, you could tell your boss: "Look, I know you are going to need me for at least a while longer. What's in it for me if I stay around for another couple of years?" If he agrees that he needs you, says James Kuhns, a partner in consulting firm Kwasha Lipton, he is likely to throw in enough extra benefits to make your extended stay well worthwhile.

If you prefer to quit the job but keep some compensation coming in, you may persuade the boss to sign you up for an indefinite period as an independent consultant, so the company can continue to draw on your expertise whenever it is needed. But remember, too, that the IRS is now denying business expenses of consultants who do not work for more than one company.

Or you may be allowed to stay on the payroll for several months, until after the window has officially closed—but still get at least the same window benefits whenever you decide to leave. If you do a particularly good job, the company often will give you an extra kicker at the end of your stay, such as a period of paid leave or a couple of thousand dollars in cash.

You may be able to improve on that separation package. If retirement normally involves receiving an annuity for life, you may persuade the company instead to pay you a lump sum, thus putting yourself in full charge of your own retirement. The company also gains by such a deal, Kaye points out, since it doesn't have either the nuisance or expense of paying you for life. Instead, it can wipe out all its responsibilities to you with a single payment. When the maximum individual tax rate drops to 28% by next year, Kaye thinks companies will pay out more lump sums.

—John C. Perham

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cov. 1, pgs. 2, 3, 34-37,

40-45, 76

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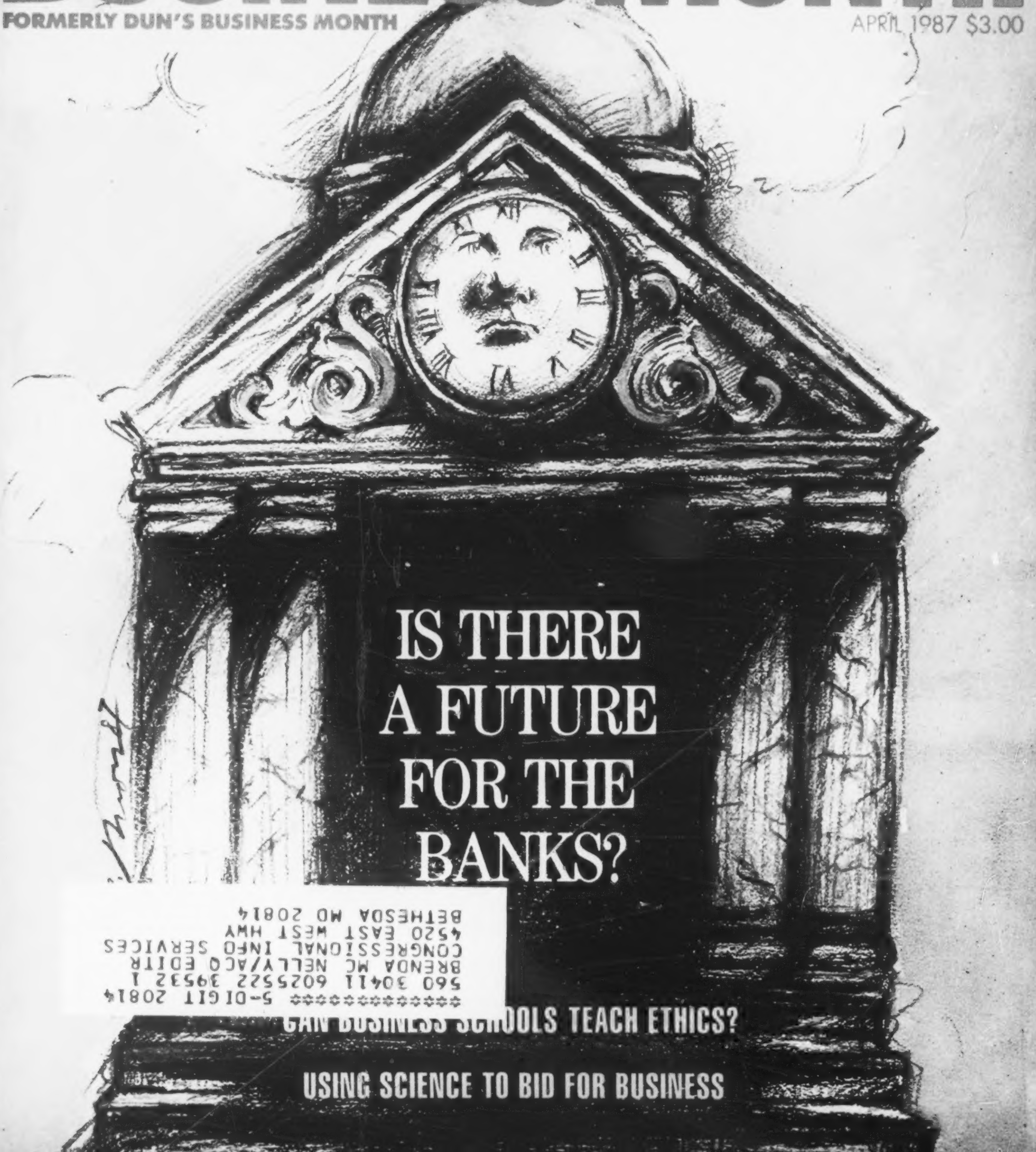

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CAN BUSINESS SCHOOLS TEACH ETHICS?

USING SCIENCE TO BID FOR BUSINESS

BUSINESS MONTH

Feature Departments

MANAGEMENT

Can Business Schools Teach Ethics? 24

In the wake of the Wall Street scandals, educators return to an old question.

Fireworks at Annual Meetings 26

Some powerful institutional investors are on the warpath against poison pills.

TECHNOLOGY

Bob Kahn Wants To Wire The Nation 30

The visionary pioneer of computer networking has come up with his most audacious idea yet: an information infrastructure for the entire country.

SPECIAL REPORT

Is There A Future for The Banks? 34

A four-part examination of the short- and long-term woes of the U.S. banking system, the role of Washington and one man's opinion on what should—and should not—be done.

MONEY&MARKETS

Why the Banks Are in a Bind 34

Arthur Burns once told Walter Wriston the banks should not set earnings targets. Now Burns agrees that banks have to make money, but is it too late?

- **The Crises Can Be Contained** 36

INTERNATIONAL

The Bleak Picture Abroad 40

The Japanese and Europeans are chewing up the U.S. banks in international markets. Even investment banking looks rough.

26

WASHINGTON

Congress Balks At Helping The Banks 43

The Fed is trying to force the issue, but the legislators don't want to face up to it.

COMMENTARY

How to Save The Banks 45

They can best help themselves by using existing facilities to sell new products. And the government should get out of the way.

INDUSTRIES

The Rag Trade Takes Control 48

Belatedly, apparel retailers and manufacturers are integrating their computerized inventory management systems.

ECONOMY

Using Science To Bid Better 50

New research into the auction process helps companies keep from paying too much.

COVER ILLUSTRATION BY GEOFFREY MOSS

April 1987, Vol. 129, No.4

WALL STREET

A Trivial Walk Down Wall Street 52
If you want to know where Merrill met Lynch, what John D. Rockefeller said about J. P. Morgan, or what Linda Darnell did on the floor of the Exchange, Wall Street Trivia will tell you.

- **So You Think You Know Wall Street** 54

Letters 4
Let Japan defend itself.

Managers in The News 7
A Smart replacement at TW Services

Managing Information 71
At Wells Fargo, Line Managers Call The Shots on MIS

Personal Finance 73
Mutual Funds That Beat the Market

How To Get On Recruiters' Lists 74

Investment Update 76

30

The Business Month

WASHINGTON

- *Reagan deal on the deficit?* 9
- *Pension changes proposed*
- *Procurement czar undercut*

INTERNATIONAL

- *Secret dollar deal?* 10
- *Japan's listless economy*
- *$15-a-barrel oil?*

COMPANIES

- *Chrysler's AMC strategy* 10
- *Pennzoil wins again*
- *GM buyback scored*
- *USX's shareholder showdown*
- *Merger roundup*

ECONOMY

- *Dollar's drop sparks economy* 12

TECHNOLOGY

- *Advanced superconductor* 12
- *Offshore oil breakthrough*
- *Sunless greenhouses*

MANAGEMENT

- *Courts challenge greenmail* 16
- *Bigger SERPs tax burden*
- *How to stay on top*

15

BANKS & MARKETS

- *Third World debtors' tin cups* 17
- *Chicago Merc reforms*
- *Optima card breaks tradition*

LABOR

- *Contractors' dream contract* 20

INDUSTRIES

- *Pentagon leans on vendors* 20
- *Jet-engine joint effort*
- *Insurers bow to Reagan plan*
- *Pentagon backs chipmakers*
- *MCI knuckles under*

MARKETING

- *7-Eleven sells airline tickets* 21
- *Does Allegis spell one-stop travel?*
- *GE's guarantee goes national*
- *Boom in beef snacks*

Why the Banks Are in a Bind

Their loan business is shrinking fast and entry into new areas is circumscribed. Where will the profits come from?

by Leah Nathans

Walter Wriston, 67, former chairman of Citicorp, recalls that Arthur Burns, the chairman of the Federal Reserve Board from 1970 to 1978, viewed banks as government-supported monopolies that could not preserve the safety of the system and also make money. Last year, the two met again after appearing on a French television program. Acknowledging that the world has changed, the 82-year-old Burns said, Walter, you were right about banks having to earn money.

Headlines scream with the woes of money-center banks burdened with massive Brazilian debt, shotgun mergers of Texas banks, and the most bank failures since the Great Depression. What they don't reveal is that the real threat to bank safety and soundness is the long-term decline in their profits. "Bank profits are at their lowest point in fifteen years," says Comptroller of the Currency Robert L. Clarke. Adds John F. Ruffle, vice chairman of the board of J.P. Morgan & Co., "There's a strong need for profits. That's what's hurting the banking system."

Profits have been steadily eroding. From 1981 to the third quarter of 1986, return on assets for all banks dropped from .76% to .68%. Since 1980, the banks' share of all financial assets has fallen from 35% to 32% at the end of 1985. "The industry is on a downward trend," worries Comptroller Clarke. "It's a problem that deserves immediate attention."

Victims of structural changes in the U.S. economy, a tattered, crazy quilt of outdated banking regulations and new rivals for its shrinking market share, banks no longer enjoy monopoly status and the luxurious margins that go with it. The value of a bank franchise is declining, bankers grumble.

New financial products that turn assets into securities, such as mortgage-backed paper or certificates of automobile receivables, are cutting out the banks' traditional role as middlemen. Ask J. Terrence Murray, president and CEO of Fleet Financial Group Inc., 1986's top performing regional, who are his main competitors? He answers: Beneficial Finance, Citicorp, General Motors Acceptance Corp. and Bank of New England.

The influx of new rivals and increased competition have dragged down profitability in the industry. But the impact on money-center banks, regionals and small banks has varied enormously. Here is a rundown:

BIG BANKS

The health of the nation's largest banks runs the gamut from the troubled Bank of America to triple A-rated J.P. Morgan & Co. ("Where the Money-Center Banks Stood in 1986," *page 36).* As a group, their returns on equity have fallen steadily. Between 1980 and 1985, ROE dropped from 14.4% to 9.6%, according to the Federal Reserve.

These banks share a core business in wholesale lending, and so have been hard hit by the structural trends. Having lost their exclusive relationship with corporate America, which now raises its short-term funds in the commercial paper market, their wholesale lending business has gone the way of the buggy whip. Most dramatic has been the drop in commercial and industrial lending, which the Fed estimates has slipped from 43% to 27% from 1974 to 1985.

Riskier loans and off balance sheet items have taken up the slack, but the grim decline in asset quality tells the real story. The ratio of net charge-offs as a percent of loans has doubled since 1981. The problem-plagued outlook for the big banks just caused Moody's Investors Services, the watchdog of credit quality, to downgrade Chase Manhattan. "Reduced asset quality is a permanent industry feature," says Moody's analyst Christopher T. Mahoney.

Bankers claim they had no choice but to take on riskier loans. "Where could we continue to make loans at a positive spread? Real estate, energy or go abroad. It's a competitive trap," says George J. Vojta, executive vice president of Bankers Trust.

In the pursuit of profits, they have played the markets. In 1986, 40% of the banks' earnings came from nonlending income, with the biggest growth in securities gains, foreign exchange and bond trading. "We are forced to go into business activities that are perceived as more risky," says J.P. Morgan's Ruffle.

But analysts are skeptical about these strategies. "There's not a lot of confidence that they can put together viable capital markets strategies alternative to basic banking," says David C. Cates, head of Cates Consulting Analysts, Inc. Adds Moody's Mahoney: "New businesses are not an adequate substitute for what they've lost. There's no such oligopoly aspect to them."

One reason: These earnings are far more volatile than profits from traditional lending. As a result, many analysts and regulators label them nonrecurring income. "Securities gains have taken place in a very unusual market when interest rates were headed down. We can't expect that to continue," says Comptroller Clarke.

The legal limitations against selling investment banking, consumer finance and insurance products have big banks champing at the bit. Chase Manhattan's president Thomas G. Labrecque has threatened to give up the bank's federal charter. Without the power to compete, "a bank charter begins to look more and more like a one-way ticket to the graveyard."

ILLUSTRATIONS BY GEOFFREY MOSS

REGIONAL BANKS

The regional banks' profitability picture is nowhere as grim as that of their bigger brothers ("The Super Regionals," *page 36*). By avoiding Third World debt and retaining their bread-and-butter middle market corporate borrowers, their profitability has held fairly steady since 1979. In 1986, New England and Southeast regionals turned in record earnings. "The widget maker in Cleveland doesn't have access to the Euromarket. He wants to walk across the street and do business with a bank," says James J. McDermott Jr., research director of bank specialists Keefe, Bruyette & Woods, Inc.

But interstate banking, in the form of regional compacts in over 38 states, now allow banks to aquire other banks in neighboring states. The result is a climate of intense competition and consolidation.

As their bank competitors offer more sophisticated products and services, their rate of earnings growth could slow. They may lose some of their middle market borrowers, who are potential issuers of commercial paper, junk bonds and other exotics that regionals are not providing.

Aware of the threat, the best-heeled regionals are rapidly diversifying out of high-cost lending operations into new products such as consumer finance and mortgage and mutual fund processing.

The main challenge is to avoid the Bank of America syndrome—that is, management unwillingness to wield the cost-cutting axe on its far-flung empire. Highly dependent on expensive consumer businesses, their future profitability will hinge on their willingness to downsize and enter new lower-cost businesses.

COMMUNITY BANKS

Thanks to a dismal farm economy, a boom and bust energy cycle and plain poor management, at year-end 1985 profits at the 13,528 banks with assets under $300 million have declined more

THE CRISES CAN BE CONTAINED

Just how dangerous are the industry's woes? Judging from the screaming headlines, the banking industry is beset by impending catastrophes that threaten to collapse the entire system. Without question, some of these problems are so grave that, like nuclear war, they are too dreadful to contemplate.

But as Continental Illinois' plight in 1984 demonstrated , the public watchdogs, from the International Monetary Fund and Congress to the Federal Reserve Board, are expected to move heaven and earth to keep them from destroying the banking system. Moreover, some scare headlines are unjustified. Bank failure statistics and farm bank horror stories grossly exaggerate the threat to the system.

The massive load of more than $100 billion in Third World debt is the greatest threat to bank solvency for the giant money-center banks. If Brazil, Mexico, Ecuador, Argentina and so forth stopped paying, the writeoffs would wipe out the net worth of the eight largest money-center institutions in one swoop *(right,* "Where The Money-Center Banks Stood in 1986"*)*.

But since 1982, when the money-centers began recycling petrodollars to the Third World, the banks have cut their exposure by beefing up their loan-loss reserves. "It's not a life-threatening problem," says James J. McDermott Jr., director of research for Keefe, Bruyette & Woods, Inc.

Nevertheless, the consensus is that the implications of a widespread default are still so dire that the IMF, the World Bank and the Fed will see to it that it is avoided at almost any cost. Adds McDermott, "It's a very big, complex problem that a lot of people are working on."

Next in urgency is the plight of the savings and loans. The Federal Savings and Loan Insurance Corp., the insurance fund that guarantees the $900 million in S&L deposits, is broke. Estimates of the deficits of insolvent S&Ls vary from $3 billion if the loans are figured at original value to $30 billion at market value . Moreover, Robert Chaut, a thrift analyst at Salomon Brothers, estimates that "20% of the institutions are dead and should be closed."

Texas S&Ls are probably the worst off in the nation. Anecdotes abound of loan officers who wrote loans for amounts greater than the value of a property to pump up results. Instead, the energy economy went into a tailspin. "There is a

WHERE THE MONEY-CENTER BANKS STOOD IN 1986

Boosted by noninterest income, money center bank performance looks healthy. But the Third World debt burden and unimpressive reserves have hurt credit ratings.

	Return on Average Assets	Return on Average Equity	Assets (billions)	Reserves/ Non-performing Loans	LDC Loans/ Net-worth	Non-interest Income/ Total Income 1980	1986	S&P Rating
J.P. Morgan	1.19%	18.9%	$76.0	144%	104%	35%	46%	AAA
Bankers Trust	.79	16.5	56.4	63	124	11	49	AA+
First Chicago	.71	13.4	39.1	68	120	39	44	A+
Chemical New York	.70	14.2	60.6	46	161	20	34	AA
Chase Manhattan	.65	13.1	94.8	54	190	27	27	AA
Citicorp	.57	13.8	196.1	60	144	31	40	AA
Manufacturers Hanover	.54	12.1	74.4	45	222	20	39	A+
BankAmerica	−.47	−16.1	104.2	48	194	22	38	BBB

THE SUPER REGIONALS

Without Third World debt woes, the regionals are turning in robust results. The seemingly low reserve levels are appropriate to their high quality loans.

Ten Largest Regional Banks Year-end 1986	Assets (billions)	Return on Average Equity	Return on Average Assets	Reserves/ Non-performing Loans	Net Chargeoffs/ Loans	S&P Rating
Security Pacific	$62.6	15.5%	0.71%	37%	0.89%	AA+
First Interstate	55.4	13.0	0.68	38	1.18	AA
Wells Fargo	44.6	15.8	0.73	28	0.73	AA−
Bank of Boston	34.1	15.5	0.78	31	0.59	AA
First Bank System	28.0	16.0	0 76	116	2.63	AA−
NCNB Corp	27.5	16.9	0.84	41	0.66	A
First Union Corp.	26.8	20.2	1.30	37	0.49	A+
SunTrust Banks	26.2	17.0	1.03	64	0.63	AA
Marine Midland Banks	24.8	12.1	0.65	28	0.89	A+
Bank of New England	22.5	17.6	0.92	25	0.31	A+

THE TEXAS BANKS

An overload of bad energy and real estate loans is wreaking havoc on the performance and credit ratings of the Lone Star State banks.

Six Largest Texas Banks Year-End 1986	Assets (billions)	Return on Average Assets	Return on Average Equity	Non-performing Loans/ Total Loans	Non-performing Loans/ Equity	Reserves/ Non-performing Loans	S&P Rating
M Corp	$21.9	−0.4%	−8.9%	7.6%	100%	38%	BBB+
**RepublicBank	20.9	0.3	4.1	5.7	70	30	A
*Texas Commerce	19.2	0.1	1.7	7.3	83	24	A
**InterFirst	18.0	−1.7	−32.2	8.2	129	51	B+
First City Bancorp	13.7	−2.4	−54.4	8.8	160	53	B−
Allied Bancshares	9.9	−0.2	−2.7	6.5	69	60	BBB

*Texas Commerce acquired by Chemical New York

**RepublicBank and InterFirst merged via a $570 million stock swap creating the largest bank in the state.

Source: Cates Consulting Analysts, Donaldson, Lufkin & Jenrette, Value Line black hole with at least $75 billion in bad assets in Texas that could swallow the industry," says a high-level regulator.

But the regulators and Congress won't let this happen. As CEO James Montgomery of Great Western Bank says, "The Treasury has a real interest in making sure the public's confidence in the system does not get to a crisis level."

Congress is already working on a cash transfusion for FSLIC ("Congress Balks at Helping the Banks," *page 43*). With these funds, FSLIC can speed the absorption of the insolvent S&Ls by stronger ones or by commercial banks. In the longer term, there will likely be a merger of the weakened FSLIC with the Federal Deposit Insurance Corp. After that, the S&Ls as a separate industry devoted to mortgage lending will cease to exist. "It certainly looks like we are headed for one industry," Montgomery confirms.

For most of 1986, the Lone Star State lived in fear of a full-fledged bank run. Plummeting oil prices and soaring home foreclosures and office vacancies compelled depositors to pull their funds out of Texas and other Southwest banks. During the year, the FDIC pumped $214 million into the state's ailing banks (*opposite*, "The Texas Banks").

But with the turnaround in crude prices this winter and Chemical Bank and RepublicBank's buyout of two ailing Texas banks, the danger appeared to subside. Still, the banks are not out of the woods. Nonperforming real estate loans, which comprise an average 18% of the six top banks' loan portfolios, have the regulators worried and more mergers are probably in the cards. Even so, the regulators are expected to continue to prop up the large Texas banks, like the still-ailing First City of Houston, because they are just too big to let fail.

Yes, 138 banks failed last year, the largest number since the Depression. But the reality is 95% of them were pretty small potatoes.

As painful as each collapse may be to the individuals and communities, Dana H. Cook, a troubleshooter for the Comptroller, observes proudly that only five of the 138 left a town without banking services. And when the Texas native tried to locate the whereabouts of three of them that were located in towns of less than 500 souls, he says, "I could not find them on a map."

The overall impact is like a flea bite on the system—a difficult but manageable phenomenon that the FDIC is strong enough to handle.

Almost half of these bank failures were in the Farm Belt. The troubles plaguing America's farmers, however, are not hurting the banking system for a number of reasons. Most farm debt is not even held by the banks. Of the $188 billion in total farm debt at the end of 1986, banks held only $44.1 billion, or 23.5% of the total; the majority was held by the federal government. Moreover, explains Emanuel Melichar, the Federal Reserve Board economist who monitors farm bank debt, "Farm loans are only a small proportion of total loans and agricultural banks account for only a small share of total banking resources."

Therefore, only a minority of farm banks are financially under water. Most of the failures, charge-offs and nonperforming loans are accounted for by only one-third of farm banks.

Meanwhile, farm profit margins have firmed and the farmers are not "spending their earnings as much as using them to pay off debt," notes Stanley L. Graham, economist at the Federal Reserve Bank of Minneapolis. As a result, farm debt has been declining since the summer of 1983. In fact, says Melichar, "Small but positive retained earnings were added to capital in both 1985 and 1986." —LEAH NATHANS, LYNN ADKINS AND DAVID KILEY

than any other category. And their inability to diversify their sources of income will keep them vulnerable. Meanwhile, the spread small banks earn has declined almost 10% since 1979.

Analysts expect that poorest performers reckoned at one-third of these banks will be swallowed up by better managed diversified institutions. "Their earnings outlook is so indifferent, they would be better off seeking outside management," says Cates.

The one-third that nobody wants will limp along serving very small markets. The remaining third are viable survivors because they are well-managed and will adapt. But the license to sell real estate, insurance and mutual funds to the average citizen is critical to be competitive. "They need to have powers to compete with Sears and do what a non-bank can do," says Chairman L. William Seidman of the Federal Deposit Insurance Corp.

If the present trend continues, by 1990 there could be 20% fewer commercial banks in the U.S. and their share of all financial assets would fall from 32% to 29%. No wonder bankers of all sizes have descended on the nation's capital in an intense push for nothing less than a comprehensive rethinking of the banking system's fundamental structure.

Ironically, in an about-face from Arthur Burns' days, their strongest supporter in Washington is the Fed. Chairman Paul Volcker has called for new powers to let banks enter non-bank businesses—a huge change for the hide-bound central bank.

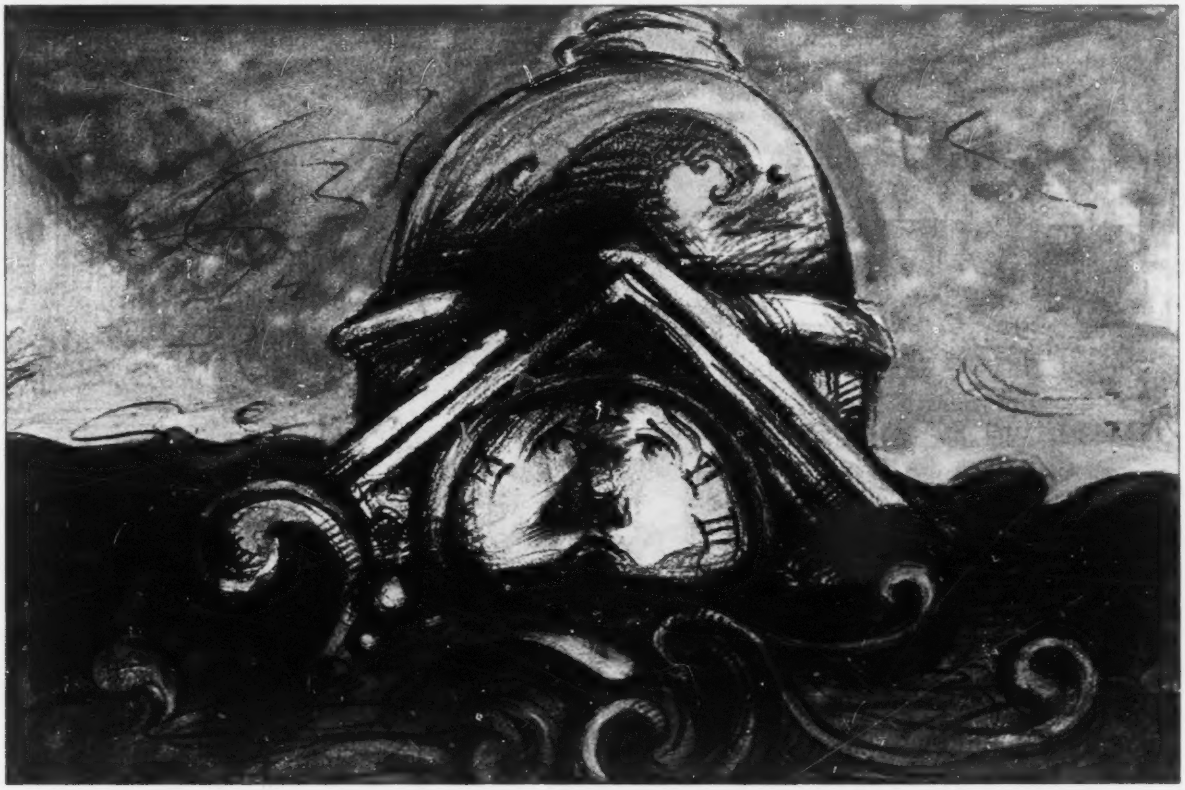
But the power to bring about major reform resides with Congress, and to date the House and Senate have hidden in a dark corner. Fumes one angry banker: "Those guys will never muster the courage to legislate radical changes in banking until it's too late." If so, adds President Mark Olsen of the American Bankers Association, "There's no question that without the ability to compete, the banking industry's share of the total financial marketplace will continue to erode." ■

INTERNATIONAL
SPECIAL REPORT

The Bleak Picture Abroad

The U.S. banks' share of the international market is falling fast. The Japanese are coming on strong.

by David Fairlamb



Just as the U.S. banks are in trouble at home, they face increasing difficulties abroad. Hobbled by a weak dollar and high costs, they are losing business at a fast clip to European and Japanese rivals. In only two years, their share of the international commercial banking market slipped from more than one-quarter to less than one-fifth in 1986 *(table, page 42).*

Lackluster performance has forced smaller banks such as Indiana National and First Pennsylvania to shut up shop and go home. And even mighty Citicorp has been beating a retreat (although the company would probably deny it). A couple of years ago, Citi seemed unstoppable in leading European markets and poised for a major breakthrough in Japan. But it recently closed four offices in Germany and is rumored to be considering the sale of its forty retail branches in Britain. Moreover, bank analysts say its performance in the recently deregulated London capital markets has been unimpressive and that its Japanese operations have not lived up to expectations.

By contrast, the supercompetitive Japanese banks have increased their market share dramatically and now account for almost one-third of the international market. Indeed, the Bank of England estimates that the Japanese now have a 36% share of the critical London market, compared with the American banks' 15%. "The most outstanding feature of the past ten years has been the growth of the Japanese banks at the expense of the U.S. institutions," says Bank of England economist Paul Wright.

Unrestricted abroad by the regulations that bar them from investment banking activities at home, the U.S. banks compete on an equal footing with the European universal banks and the Japanese giants (which are also barred from securities operations in their domestic market). And all the banks are being hit by the dwindling demand for traditional bank loans from international companies, which can now borrow more cheaply by tapping the commercial paper markets. "I tell [the banks] don't call us, we'll call you," quips Christopher Bull, finance director of British Telecom plc.

Given the weak dollar and towering U.S. trade deficit, however, American banks have less money at their disposal than their foreign rivals. The big Japanese and German balance-of-payments surpluses, coupled with the strong yen and even stronger mark, have transferred huge amounts of dollars to their banks. In contrast, the U.S. deficit, along with the sharp reduction in Middle East oil money traditionally recycled through American banks, has limited the supply of funds available to the U.S. institutions. Besides that, of course, the weak dollar has boosted the assets of the foreign banks at the expense of the U.S. banks *(table, right)*.

Beyond these international economic factors, what has primarily blunted the U.S. banks' competitive edge is their relatively high cost of borrowing. Example: A prime American bank raises money at 6.3% by issuing certificates of deposit in the U.S. or tapping the interbank market in London; on top of that, it must add 30 basis points for reserve requirements and insurance, 5 points to cover loan loss reserves and 110 points in equity costs. That all adds up to 7.75%—before taking into account relatively high overhead expenses such as salaries and dividends.

In contrast, analysts calculate that a top German bank can pay as little as 4% to raise deutschemark funds, swap them into dollars and end up paying less than 6% for its money; and a comparable Japanese bank could get the money for as little as 5.9%. Besides that, Japanese and most European banks are required to maintain lower capital-to-loan ratios than the American banks, which means that they can achieve a reasonable return on equity on lower-margin business.

At the same time, the American banks' high ratio of domestic and Third World problem loans has lowered their credit ratings. Moody's downgraded the credit ratings of 39 American banks last year. For example, Moody's recently gave a $100 million Eurobond issued by Dai-Ichi Kangyo Bank an Aaa rating, while First Chicago was given a much lower A3 for a $121 million float-

A SHRINKING BASE

Only one U.S. bank, Citicorp, now ranks among the world's ten largest banks. Meanwhile, other major U.S. banks have fallen in world ranking.

WORLD'S TEN LARGEST BANKS

[illegible]	[illegible]	[illegible]
Dai-Ichi Kangyo	Japan	$213.3*
Citicorp	U.S.	196.1
Fuji	Japan	182.5*
Sumitomo	Japan	179.1*
Mitsubishi	Japan	174.2*
Sanwa	Japan	167.9*
Credit Agricole	France	149.8**
Banque Nationale De Paris	France	142.8**
Credit Lyonnais*	France	131.5**
National Westminster	U.K.	125.0

*For fiscal year ended March 31, 1986.
**For year ending June 30, 1986.
Exchange rates: 160 yen = $1; 6.20 francs = $1; £1.50 = $1.

CHANGE IN WORLD RANKING OF THE TEN BIGGEST U.S. BANKS

[illegible]	[illegible]	[illegible]
Citicorp	2	2
BankAmerica	18	1
Chase Manhattan	22	15
J.P. Morgan	33	30
Manufacturers Hanover	34	21
Security Pacific	44	40
Chemical New York	48	44
Bankers Trust	49	45
First Interstate	55	46
Wells Fargo	66	65

Source: The Banker. *Estimated.

ing-rate note; and a 500 million-franc Eurobond issue by Credit National of France got an AAA rating from Standard & Poor's, while a Citicorp $500 million issue got only an A+.

This disparity allows Japanese and European banks to raise money more cheaply on the international bond markets and undercut U.S. banks on many deals, including some from American corporations. When Marriott Corp.'s Marriott/Portman Capital subsidiary sought $375 million late last year, it chose France's Credit Lyonnais and three Japanese banks as lead managers. Likewise, Dayton Hudson Corp. appointed Swiss Bank Corp. International to lead-manage a recent $100 million financing. "U.S. banks are no longer the natural intermediaries between their corporate clients and the international markets," says chief economist David Kern of Britain's National Westminster Bank plc.

Even in loan syndications lead-managed by American banks, Japanese and European banks are increasingly providing the lion's share of the money. In a recent $350 million deal for the Republic of Indonesia led by Chase Manhattan's Asian operation, half the banks that participated were Japanese, and they provided four-fifths of the money. "Nowadays, you rarely see a tombstone without a Japanese name on it," comments London financial analyst Stefan Mendelsohn. "They have sufficient volume to bid for whatever business they want on whatever terms they want."

At the same time, Japanese and European banks have benefited from the rapid growth of the Euroyen and Eurodeutschemark markets and the consequent decline in the dollar's preeminence in international financings (*table, below*). Many American companies are now dabbling in foreign currencies. For instance, Anheuser-Busch Corp. recently issued dual-currency Swiss franc and yen Eurobonds as well as standard Eurodollar paper. And such companies as Avon Products, Intel and McDonald's, are now old hands in the Euroyen market.

To be sure, there are still some gold nuggets for U.S. commercial banks abroad. They are the major players in foreign-exchange markets from London to Hong Kong, and they lead the field in currency and interest-rate swaps. Corporate money men also consider them much more innovative than the Europeans and Japanese in structuring complex financial packages. "As financial engineers, they are streets ahead of the competition," says Treasurer Ronald Bell of Industrial Equity Ltd., one of Australia's fastest-growing holding companies.

But even here the American banks are coming under pressure. Not only are rival banks elbowing their way further into these areas, but several investment banks—including Merrill Lynch and Japan's Nomura Securities and Daiwa Securities—have recently set up commercial banking subsidiaries in London. "With a bank in our group, we can handle our own forex and swap operations and indulge in some lending," says Andreas Prindl, chief executive of Nomura International Finance in London.

Increasingly, therefore, American bankers believe they must build up their investment banking business abroad if they are to survive over the long run. As one puts it: "Borrowing is clearly going out of fashion. Unless we take on the investment banks, we might just as well plod along and wait for a Japanese institution to come and gobble us up."

It's not going to be an easy ride. The leading American investment banks, Japanese securities giants and European universal banks are all powerful players with established positions in the Eurosecurities markets. And recent deals suggest that the highly liquid Japanese and German institutions are going to be just as tough to beat as their commercial banking counterparts. A sign of the times: Nomura Securities lead-managed more international corporate issues—a total of 85, worth $8.7 billion—than any other securities firm last year. Concludes Stefan Mendelsohn: "Unless the economic fundamentals shift back in the U.S. banks' favor, and quickly, they could find that their move into investment banking just gets them out of the frying pan and into the fire." ■

FADING FORTUNES

The U.S. banks' share of the international banking market has dropped sharply in just two years...

	Market Share*	
	[illegible]	[illegible]
Japan	32%	23%
U.S.	19	26
France	8	9
Germany	8	6
U.K.	7	8
Other	27	28

...As the dollar's role in international borrowing has declined.

	Share of Eurobond Market**	
Currency	[illegible]	[illegible]
Dollar	60.4%	78.9%
DM	9.9	7.0
Yen	8.7	1.6
Sterling	7.6	5.8
ECU	4.8	3.6
Other	8.6	3.1

*Source: Bank for International Settlements. **Source: International Financing Review.

Congress Balks at Helping the Banks

The legislators will supply short-term help. But they refuse to face the thorny issue of expanded powers.

by John M. Barry

Every year since 1983, banking experts have made the same prediction: Congress would write sweeping new banking laws, since the rapidly changing marketplace has made the current ones obsolete. It didn't—and it won't this year either.

Few legislators want to antagonize such powerful interest groups as the banks, the brokers and the big companies that want a piece of the bank's once exclusive action. Whichever way they vote they will make enemies. Says New York Democrat Charles Schumer, a key member of the House Banking Committee: "Banking is like tax law, with a million interests each hammering on their own viewpoint, and the general interest vague and ephemeral."

Congress never handles hot potatoes that it doesn't have to. And rewriting the 1933 Glass-Steagall Act, which divided the turf between the banks and the brokers, is something the legislators are not eager to address. However, Congress will deal with those serious financial industry problems that are not postponable, such as beefing up the faltering Federal Savings and Loan Insurance Corp. and giving the regulators more powers to merge failing banks.

The measure that cleared the Senate Banking Committee last month by an impressive 12-to-6 vote provides $7.5 billion over two years for the beleagured FSLIC and beefs up the regulators' clout. The Administration had wanted to pour $15 billion into the FSLIC, but Congress typically prefers to keep it on a tight leash. Says Chairman William Proxmire of the Senate Banking Committee: "That should cover the situation for a while and give us a chance to see how it's working."

BRAD MARKEL/GAMMA LIASON

DENNIS BRACK/BLACK STAR

BRAD MARKEL/GAMMA LIASON

Senate Banking Chairman William Proxmire: A populist who favors the small banks, he is determined to prevent further concentration of financial power

The Senate committee bill is very bad news for the big banks that want legal permission to enter new businesses. Even though the bill prohibits new nonbank banks, it does nothing to alleviate the banks' regulatory disadvantage, by freezing for one year any additional powers for them to engage in new businesses.

In the House, Banking Committee Chairman Fernand St. Germain also will ignore the Glass-Steagall quagmire and simply pass an FSLIC bailout. So when ultimately the two Houses get together, they are likely to deal only with the immediate crisis. Also likely to become law this year are a regulators' powers bill and a limit on the time banks can take to clear checks, both of which are in Proxmire's bill. Still another possibility is a requirement that credit card issuers disclose their interest rates before signing up customers.

Congress' reluctance to face the turf question reveals the waning clout of the once powerful banking lobby. On this issue, the small banks have split with the big institutions and even the behemoths are divided. This disunity makes it easier for Congress to dodge the issue.

Most of the major banks want the right to enter other businesses, but they differ on giving the new financial services giants the same powers. Citicorp, Chemical Bank and Security Pacific and others last January joined with such companies as Sears, Roebuck, Merrill Lynch, General Motors Acceptance Corp. and American Express to form the Mayflower Group. The goal of this formidable lobbying organization, named for Washington's Mayflower Hotel where it first met, is to replace Glass-Steagall with "regulation by function."

Such a change would permit any business to operate financial service subsidiaries, and have these subsidiaries regulated according to what they did—not according to whether the services were provided by, say, a federally-chartered bank, a bank holding company, or a retailer. The idea was conceived originally by the securities industry and was endorsed by a White House task force three years ago when former Merrill Lynch Chairman Donald Regan was Treasury Secretary.

But functional regulation is strongly opposed by small and medium-sized and some big banks, which fear that they will be overwhelmed by such muscular competition. They have garnered political support by contending that functional regulation is a threat to the safety of deposits. "Maybe we ought to have functional realignment," says Schumer. "But until we agree on that, there shouldn't be further breaches in the wall [between business and banking]."

Congressman Schumer: So what "if the Chase Manhattans shrink"

PHOTOGRAPH BY LARRY BARNS/BLACK STAR

All the banks that want new powers, however, could get help from the Fed. Chairman Paul Volcker, who in the past strongly opposed breaching the Glass-Steagall wall, has recently become more sympathetic to the banks' plight.

Last month, in Volcker's absence, the Fed voted four-to-zero to authorize a unit of the Chase Manhattan Corp. to underwrite—as well as deal in—commercial paper. It has been expected to approve similar applications from Citicorp, J.P. Morgan and Bankers Trust, as well as their requests to underwrite municipal revenue bonds and to operate mutual funds. The Fed apparently assumes that the Banking Committee's one-year ban on expanded powers will not pass the Senate.

President Gerald Corrigan of the Federal Reserve Bank of New York has a plan to give banks expanded powers. He wants to write new definitions for bank and financial holding companies and commercial companies and would regulate them separately. This would permit banks to underwrite and trade stocks and bonds. And it would drive nonfinancial institutions, such as Sears and General Motors, out of the banking business.

Volcker hopes to come up with a Fed position on expanded powers and then sell it to Congress. But getting the Fed governors to agree won't be easy. The Reagan appointees to the central bank, who now constitute a majority, are out-and-out deregulators. So, in the end, the Federal Reserve may be too divided and Volcker powerless to secure new powers for the banks.

Meanwhile, the big banks that oppose nonbank banks are losing ground in Congress, which favors little banks and anything that is packaged as being pro-consumer. A case in point: Proxmire has long opposed nonbank banks, but Sears has lobbied effectively to keep them alive, arguing they offer more options to small consumers. This populist claim has hit home on Capitol Hill and Proxmire bowed to pressure and moved the date for grandfathering existing nonbanks from 1983 to 1987.

With the little banks beating the drum, both Proxmire and House Speaker Jim Wright are determined to structure any bill to prevent further concentration of financial power into the hands of the big banks. Both have a strong predilection for local banks and an antipathy to the money-center institutions. Proxmire maintains that the bulk of economic development is in small and medium-sized businesses and that while "big banks make 13% of their loans to these businesses, small banks make 90% of their loans to them. The vision some people have of the 14,000 banks shrinking to 1,000 or less is, to me, a nightmare," he adds.

Proxmire is equally indifferent to the loss to the Japanese of the money-center banks' once dominant world position. Indeed, he maintains that the Japanese banks have succeeded internationally because "they're smarter, more aggressive, and work harder. I don't think their bigness is the reason they do well," he says. And Schumer says he wants to maintain the international competitiveness of U.S. banks, but he isn't worried if "the Chase Manhattans shrink."

Legislators are very reluctant to antagonize the small banks, brokers and the financial services giants that are so important to filling their campaign chests. So many expect that an overhaul of the banking laws will be put off again—probably until 1989. But will that be soon enough to help? "It's urgent that Congress act," insists a prominent New York banker, "because the banks are getting further and further behind." ■

How To Save the Banks

by Martin Mayer

Banks loom so large on the American commercial horizon that it's difficult for people—including Congressmen and bankers—to realize how serious their problems are. The pillars of their throne have been pulled out from under them; their lofty status has become a combination of levitation and habit, which can vanish any day.

Banks have been very nearly frozen out of lending to the largest corporations, they are no longer needed to make automobile loans, and they are paring their profits on mortgages by selling them off. "Middle market" business still relies on bank loans, but the commercial credit companies, insurers and factors are sharpening their pencils. Only Third World lending is still pretty much a banking monopoly, because nobody else wants it.

Everybody is invading traditional banking businesses. Mutual funds issue checkbooks; labor unions issue credit cards; Sears' Discover account pays interest on balances. Supermarkets own Automated Teller Machines; General Electric runs wire transfer networks for large banks; Automatic Data Processing services ATMs and Point-of-Sale registers for small ones.

Mismanagement of the international debt problem has saddled money-center banks with an interest-rate disadvantage that will cripple them for years. The regional banks will manage to escape from LDC debt by the end of this decade, but they must get their costs in line.

Right now, the banks are the high-cost providers of their main products. Knowing this, they want to supplement the old "low value-added" services with investment banking, which promises higher returns. But it's like the higher return on foreign lending: When you least expect it, the rewards prove to be for additional risks assumed, not for value added.

In the past, underwriting deals often went sour at the same time that commercial loans collapsed. That was the lesson of 1930-32—and the reason the Glass-Steagall Act took commercial banks out of underwriting. As long as the government insures deposits, Congress should not let the banks take on the risks of underwriting securities.

Similarly, banks shouldn't be allowed to package and sell long-term debt without an intermediary who is obliged to examine the paper and stand behind its legitimacy. Too often, banks have been tempted to unload the junk in their loan portfolios (as they got rid of Latin American loans through their securities affiliates in the late 1920s).

But banks should be freed from Glass-Steagall's unfair restrictions. Banks that manage "commingled funds" for trust accounts should be able to market those funds publicly. And they should be allowed to broker or underwrite commercial paper, which is just a packaged short-term bank loan.

Bank trust departments should be permitted to market their financial planning to anyone who comes in the door. There's no reason to believe banks can't put on their platforms advisers every bit as competent as the salesmen of, say, IDS.

And legislators should help them open up new fields for their labors. All kinds of insurance brokerage are suitable appendages to the banking floor. New York's savings banks have for generations written life insurance, which has been profitable for them and cost-effective for depositors; every bank should have the power to underwrite such actuarial risks.

Commercial banks can expand by exploiting the convenience of their existing facilities to sell different financial products. Banks should offer "full-service brokerage." They could do so now, if they registered their customers' men and women with the Securities and Exchange Commission as the brokers do and stopped fighting the SEC's supervision. Travel agenting meshes well with the operations of a consumer bank. And banks also could offer accounting services for small businesses and tax preparation for individuals.

Banks perform best in lending to the little guy—the dentist who needs an office chair or the electronics shop that wants to make a new kind of circuit board. Will, or can, the likes of the GECCs, Walter Hellers and Commercial Credits do as good a job holding small business' hands?

Fortunately, small business lending is profitable. And thoughtful big banks, like Security Pacific, are restudying their branch networks as sources of sound loans that pay high rates—not because they are riskier but because they cost more to make and service.

"Competitiveness," if it means anything at all, means eliminating unnecessarily costly financial services. The burden of proof is now on the banks to demonstrate that they can compete against alternative suppliers. And the government must get out of the way.

Martin Mayer is a New York journalist who writes frequently on banking

Transco Products Inc. by dint of his nine years of giving search jobs to Coopers & Lybrand. Burgman also has cultivated a half-dozen other top executive recruiting firms by presenting himself as a prospective client. "As someone who might give them business, they are usually happy to accept my invitation for lunch," he says. "That way, I was able to keep my face in front of them."

This strategy gives you the advantage of personally meeting with a recruiter without openly declaring that you are job hunting. David Smith, now president of Schindler Elevator Corp., for many years actively cultivated headhunters as a client of four different ones and as a source to numerous others. The payoff came when, while employed at American Standard, he received an unsolicited call from a recruiter that led to his current job. "I see my contacts with recruiters as my capital for my career," says Smith.

Like marriage, the role you play with a recruiter may change several times over the years. While you may view yourself as a job candidate, the recruiter thinks of you as source of information or as a valued client who will eventually hand the firm a $75,000 fee for finding an executive.

Chairman Max Ulrich of search firm Ward Howell International recalls placing an executive in a top human resources job last year, who was so pleased with the position that he promptly gave the firm a $400,000 search. "Clients become sources, sources become candidates and candidates become clients along the way," observes James J. Drury III a top recruiter at Spencer Stuart.

Once you have established a relationship with a recruiter, work to keep it going. One of the best ways to do so is to provide the recruiter with good leads to executive talent. "Cooperate if you are called to recommend others for a job," advises Jane Evans, former president of General Mills' Monet Jewelers unit and currently a partner at Montgomery Securities.

But this strategy is only as effective as the quality of the talent you bring to the recruiter's attention. Advises John Burgman, who has long acted as a source for recruiters: "It's better to say I don't know than to give a recruiter a bad lead." Indeed, Charles W. Kepler, head of search firm Russell Reynolds' Chicago office notes, "We don't forget sources who give us outstanding leads." According to Kepler, Russell Reynolds actually "calibrates sources" according to the quality of their recommendations.

Recruiters often add to their lists prominent people in major business disciplines. So while you are pursuing all these strategies you should try to increase your visibility. Here are some of the roads to a higher profile suggested by recruiters:

☐Get your company's public relations department to issue a release on any promotion or award. If that's not possible, notify your university alumni magazine and any trade associations of which you are a member.

☐Write articles for trade publications.

☐Join and take a leadership role in an industry association, college alumni group, or charity.

☐Cultivate people in the media. It never hurts to be on the 6 o'clock news as the expert explaining tax reform or why health care costs are escalating.

If all else fails, there is always the unsolicited letter approach. Do not send a picture and absolutely never send a video-cassette recording of yourself. While you might think you're the picture of the successful executive, the headhunter may not agree. James R. Arnold, head of executive search at A.T. Kearney, Inc., chuckles as he recalls outlandish plaid sports jackets, stiff presentations and candidates who resemble snake oil salesmen. "We've received some very amusing videos," he smiles.

Getting on a headhunter's list is much like scoring in a singles bar. "You have to project yourself as a winner—someone the recruiter really wants to get to know," advises Russell Reynolds' Kepler.

—L.A.

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(2/27/87) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$28.58/share	$10,396	$12,867
per cent change		+4%	+28.7%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$142.50	$10,460	$11,182
ACCUMULATED INCOME		$ 71	$ 922
TOTAL		$10,531	$12,104
per cent change		+5.3%	+21%
Money Market Fund	5.33%	$10,040	$10,597
per cent change		+0.4%	+6%
Gold (Krugerrands)	$410.00/oz.	$10,024	$12,058
per cent change		+0.2%	+20.6%
HOUSE PRICES	Recent	Month Earlier	Year Earlier
Existing House	$112,400	$105,200	$100,000
per cent change		+6.8%	+12.4%
New House	$132,600	$133,400	$112,000
per cent change		-0.6%	+18.3%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes,Inc.; Federal Home Loan Bank Board.

AN EXCLUSIVE: THE 1986 BOND FUND RATINGS / MADISON AVENUE

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5/11/87

CORPORATE AMERICA'S MAGAZINE

BUSINESS MONTH

FORMERLY DUN'S BUSINESS MONTH

MAY 1987 $3.00

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The Unhappy Sequel To Management Cutbacks

A NEW ERA OF ACTIVIST GOVERNMENT BEGINS

WHY CONSUMERS WILL KEEP SPENDING

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BUSINESS MONTH

Feature Departments

MANAGEMENT

Bitter Survivors 28
Overworked and ignored by top management, middle managers who survived the cutbacks are frustrated and angry. Are companies cutting their own throats?

WASHINGTON

The New Era Of Activist Government 34
In a sea change in sentiment, voters want Washington to create programs again. Politicians of both parties are responding with alacrity.

ECONOMY

Why Consumers Will Keep Spending 38
Confidence in the economy, cheap money and demographics will keep the cash registers ringing. And, at last, U.S. companies will get a big piece of the action.

INTERNATIONAL

Is a Tokyo Quote Overrated? 42
Listing on the Tokyo exchange is the latest fad. But the financial benefits are not all they are cracked up to be.

TECHNOLOGY

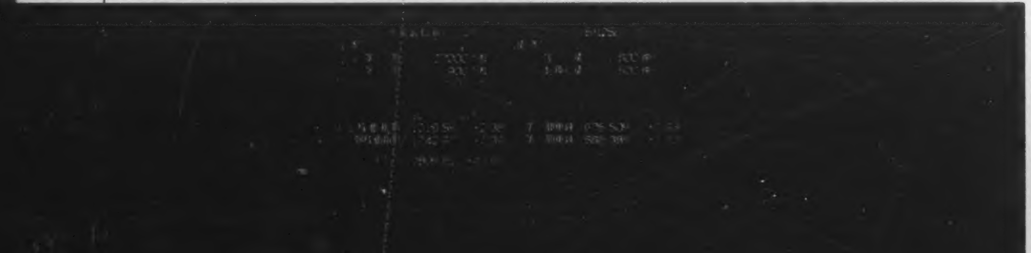
Quality Goes High Tech 44
Automation is taking over from old-line quality improvement methods, as years of competitive pressure bear fruit.

ADVERTISING

Advertising: Reality Makes a Comeback 48
Savvy, jaded baby boomers are a cynical lot. So advertisers cut the glitz for some straight talk. Fad or long-term trend?

COMPENSATION

The Return of Restricted Stock 52
The granddaddy of executive perks is not only the best golden handcuff around. It has reemerged as a takeover defense and a golden parachute as well.



42

May 1987, Vol. 129, No. 5

48

SPECIAL REPORT

Bond Funds: Can They Keep It Up? 55
Bonds will be hard-pressed to match the torrid pace of the past two years. But they could still provide some pretty good returns.

- **Demystifying Bond Funds: Choosing the Right One** 56

Business Month Bond Fund Ratings 58

Letters 5
Bellcore's role.

Managers in The News 9
Giacco gets another top job.

Personal Finance 89
A Time for Convertibles?

Investment Update 90

Managing Information 91
Portables make a comeback.

The Business Month

WASHINGTON

- *Reagan's vexing choice* 17
- *Politics of trade*
- *Curbing takeovers*

ECONOMY

- *Scare talk overblown* 18
- *Drooping dollar*

INDUSTRIES

- *Conrail's real test* 18
- *Japanese challenge U.S. builders*
- *New game in Motown*

INTERNATIONAL

- *U.S.-Canada pact: A dead duck?* 19

COMPANIES

- *Less paydirt for Pennzoil* 19
- *IBM's new PC strategy*
- *Merger roundup*

MONEY & MARKETS

- *Feds widen Wall Street probe* 22
- *Another whack at Glass-Steagall*
- *Chase's Manhattan's clever new CD*
- *Prudential moves into real estate*
- *East meets West on Wall Street*
- *Texas bank sells energy loans*
- *London's "Big Bang" fallout*

CITIES & STATES

- *Aliens gain political clout* 24

MANAGEMENT

- *Court rebuffs Reagan on bias* 24

24

COVER ILLUSTRATION BY GARY OVERACRE

Bond Funds: Can They Keep It Up?

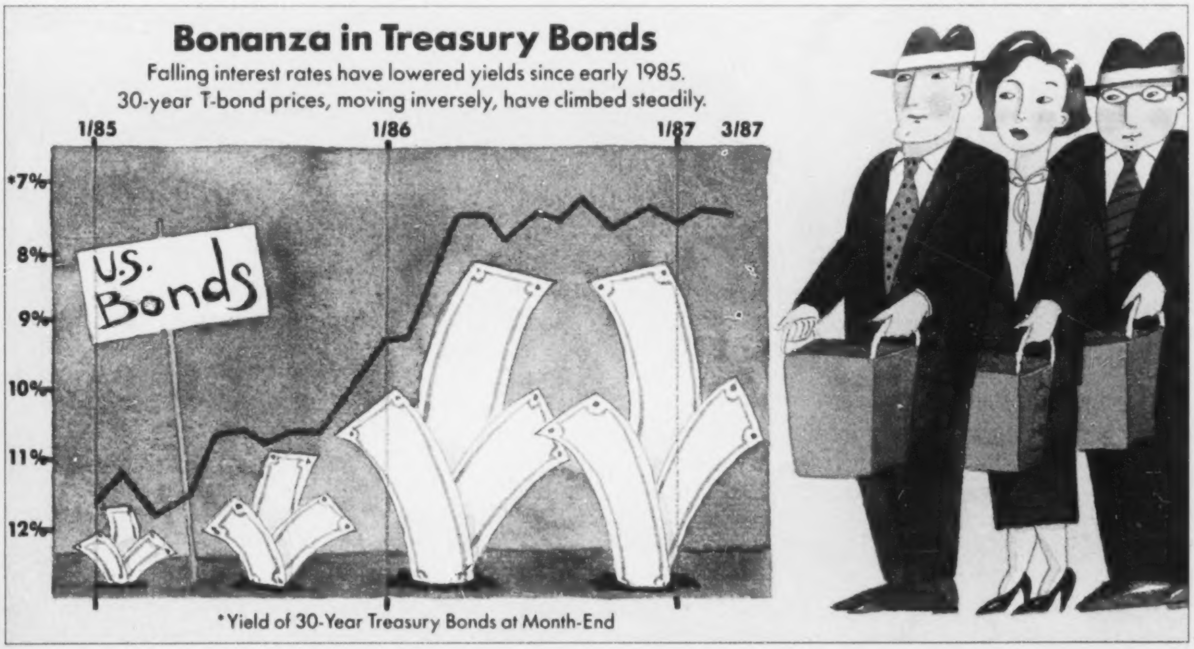
With interest rates firming, 1986's torrid pace seems sure to slow. But bond funds may be 1987's best game. Plus BUSINESS MONTH's exclusive bond fund rankings.

by Mary Rowland

The stock market looks like it is running out of gas. Is this the time to stash dollars into bond funds? Or with interest rates inching up of late, should investors be bailing out of their bond fund holdings?

There's a lot of money riding on the answers to those questions. Last year, investors poured $161 billion into bond funds. And total fund assets stood at $271 billion at year-end, 56% more than the $152.6 billion in equity funds. For sure, bond prices are unlikely to rack up the spectacular 22% rise they piled on two years ago, or even the 15% they gained last year. With the economists forecasting at best only modest declines in rates this year, most portfolio managers figure they will be hard-pressed to match 1986's results. "This year we're going to have difficulty getting into the double digits," admits Vice President Charles P. Smith of T. Rowe Price.

Nevertheless, right now 7%, 8% and 9% returns in bonds look downright sexy compared with 5% and 6% money-market fund rates and the chances of stock prices climbing that much after soaring almost 27% in the first three months. And as the second annual "Business Month Bond Fund Ratings" reveal, if last year's results



Bonanza in Treasury Bonds

Falling interest rates have lowered yields since early 1985. 30-year T-bond prices, moving inversely, have climbed steadily.

*Yield of 30-Year Treasury Bonds at Month-End

CHART ILLUSTRATION BY LIZZY ROCKWELL

are used as a guide, seven in ten of the corporate bond funds did better than the 15.44% overall bond return measured by the Salomon Brothers Broad Investment Grade Index. But only one in two U.S. government funds outperformed the index.

BUSINESS MONTH, with the assistance of Lipper Analytical Services, ranked 311 taxable and tax-exempt funds in nineteen catgories by their performance in 1986. The tables also report three- and five-year results and each fund's record of capital gains and losses during periods of rising and falling prices compared to the average of all funds in its category. Funds that outpaced the averages during both of two bull market periods *(see tables)* are awarded a plus (+) and those that underperformed a minus (–). The same signs are used for two bear markets. If a fund outperformed in one bull or bear period and underperformed in the other, it is given a 0.

The rankings cover only funds that have been in existence since January 1, 1986. Included are all funds in thirteen categories: U.S. governments, Ginnie Maes, U.S. mortgages, general municipals, intermediate municipals, high-yield municipals and single-state municipals. In the other six categories, only the top ten performers are ranked. The rankings are based on each fund's total return (interest earned plus or minus capital gains or losses) excluding sales and management fees.

How did bond fund investors score last year? According to BUSINESS MONTH's rankings, the best performing fund in the taxable category was Benham Target Maturities Trust-2011, which returned 54.42%. Among tax-exempts, the best performer was Mutual of Omaha's Tax-Free Income Fund, which returned 24.63%.

The market-beaters succeeded by being in the right maturity at the right time. With declining interest rates firing the market, longer maturities did better than shorter ones.

Long-term Ginnie Mae funds, however, ran counter to the general rule. To take advantage of falling rates, homeowners prepaid on their mortgages, paring the maturities and results for Ginnie Maes last year. However, Peter W. Hegel, senior portfolio manager at Van Kampen Merritt, turned in the best peformance—14.17% total return—by playing the spread between Treasuries and Ginnie Maes. Early in the year, when the average spread between Treasuries and mortgage-backed securities widened, Hegel moved to Treasuries. Then, in late summer when the spread tightened, he invested up to 92% of the fund in mortgage-backed issues.

How should investors play the bond market this year? Conservatively, says Robert S. Dow, director of fixed-income investments at Lord, Abbett & Co. Inflation, which was driven down to 2% by tumbling oil prices in 1986, is expected to increase to about 4% this year. When inflation picks up, yields rise and bond prices go down. Some forecasters expected the long Treasuries, which yielded just over 7½% in March, to hit 8¼% by year-end. But they didn't expect it to happen by mid-April. Still, T. Rowe Price's Smith sticks to his 8¼% prediction for year-end. But he notes the market is dollar driven; "If the dollar remains under pressure, so will the bond market."

DEMYSTIFYING BOND FUNDS: CHOOSING THE RIGHT ONE

Investors have gone bonkers over bond mutual funds. And with good reason. In the past five years, the average bond fund has doubled in value, outperforming savings accounts, money market funds and bank CDs.

For investors with less than $100,000 to invest, bond funds offer a stunning array of ways to tap the fixed-income market. Fund investments offer almost cash-equivalent liquidity, professional management and diversification, all for as little as $100 to start.

Bond mutual funds sell shares to individuals and invest the proceeds in a portfolio of bonds. The price of each fund share fluctuates depending on bond yields. When interest rates decline, the price of bonds rises, boosting the value of the portfolio and upping each share price proportionately. This appreciation combined with the bond income add up to the total return. Conversely, if bond yields rose from 7½% to 9½%, a $1,000 bond's price would drop to $774, a loss of $226.

There is a wide spectrum of credit risk among bonds. The safest are U.S. government bonds backed by the full faith and credit of the federal government. Then there are the thousands of municipalities and state tax-exempt issues, the most secure of them backed by the taxing powers of the local authority. Less secure are tax-free revenue bonds, which pay interest from the income of such local operations as hospitals, dormitories and toll bridges. The most dicey are higher-yield, lower-priced bonds issued by small, non-investment grade companies, the so-called junk bonds.

To buy bond fund shares, call a mutual fund company and ask for a prospectus. You can reinvest interest and capital gains payments or have interest payments sent to you monthly, quarterly or annually. In either case, you can transfer payments from your bank and you will get a monthly or quarterly statement.

There is a price for convenience, however. Some bond funds charge a sales commission (known as a load) that may run as high as 8.5%. In addition, most funds charge a 1%-to-2% fee to cover management, administrative costs and expenses. Also, watch out for funds that charge exit fees when you want out.

A multitude of funds are available, some of them investing in taxable Treasury and corporate issues, others buying tax-free municipal general obligation issues and/or tax-free revenue bonds. Within the taxable and tax-free categories, there are funds with varying investment objectives. The following suggestions may make the choice easier.

DO's

1. Pick the type of bond fund that is consistent with your willingness to risk your principal as well as your appetite for income and capital gains. The trade-offs: Shorter maturity bonds fluctuate less in price, but ordinarily offer lower yields; longer-term bonds are more volatile, but usually offer higher yields. In either maturity range, higher-quality issues will pay lower interest rates than riskier issues.
2. Compare the performances of similar funds during recent bull and bear markets. The BUSINESS MONTH rankings, for instance, cover 21 categories of bond funds by total return from income and capital gains or losses during 1986.
3. Ask yourself when you will need your principal back and match this time period with the appropriate bond fund maturity. While you can cash out at any time, if you sell when interest rates are rising, you will get a lower share price. Stick to short-term bond funds if you may need cash soon.
4. Check the safety or creditworthiness of the issues in the fund, especially in junk bond funds.
5. Check the investment policies in the prospectus to see whether the fund manager varies maturities according to his or her interest rate outlook or is restricted to a maturity category such as intermediate bonds.
6. Investigate the fund manager's experience as well as his investment strategy. Some funds follow much riskier strategies, while others are much more cautious.

DON'Ts

1. Don't buy a bond fund exclusively on the basis of yield. Look at the fund's long-term record of total return.
2. Don't buy a bond fund based on its track record alone unless it has stretched over good and bad markets. Remember, there is no guarantee that past performance will be repeated in the future.
3. Don't forget that a bond fund is not a savings account. You can lose part or all of your principal investment, if interest rates rise after you buy in.
4. Don't compare funds based on the yields or "total returns" advertised in the newspaper. Because there is no established standard, each company uses a different formula or time period to calculate both. You will probably have to ask for information that is not in the prospectus to calculate comparable yields.
5. After you calculate comparable numbers, don't buy a fund whose yield is very different from the competition without finding out the reason. ■

For those, however, who want to put some spice in their portfolios, there are a couple of new options:

☐ Several bond managers have introduced international funds, which they hope will mimic the performance of the high-flying international equity funds. These funds are a bet on the performance of foreign currencies. They generally invest in foreign government issues, so it's unlikely that the issuer will go broke. The biggest threat is a major rally in the dollar.

☐ The first bond index fund, introduced by Vanguard Bond Market Fund last December, permits individual investors to play interest rates. The theory behind index funds is that most professionally managed funds don't perform as well as the market as a whole, so why not put together a portfolio that is a proxy for the overall market. One big plus: no management fees, since there's no management function.

Vanguard uses the Salomon Brothers Broad Investment Grade Index as a proxy for the market. According to Brian Mattes, assistant vice president at Vanguard, "The index itself has beaten more than six out of ten active bond managers over the last six years. It's a very powerful competitor and tough to beat. And we expect to be able to operate for 25 cents for every $100 invested. The typical bond mutual fund is about four times that."

If interest rates stay steady, then well-managed bond funds may outperform stocks and money-market funds. But don't bet on it. Consider: What happens if the Japanese get the jitters and fall out of love with bonds or if inflation takes off? Then, be ready to move into short-term securities. ■

Mary Rowland writes on business and finance from New York City.

BUSINESS MONTH BOND FUND RANKINGS

An exclusive survey of 311 bond funds in 19 categories.

The tables rank all Ginnie Mae funds and U.S. mortgage funds; also all general, intermediate, high-yield and state municipal funds. In other categories, only the top ten performers are listed. Footnotes are on page 72.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
U.S. GOVERNMENT FUNDS These funds invest exclusively in U.S. Treasury obligations.										
$4.8	**Benham Target Maturities Trust-2010 N** (800)-227-8380, in CA (800)-982-6150	54.42%	1					0	–	$17.65
2.5	**First Investors U.S. Government Plus-I** (800)-423-4026, or (212)-809-9122	45.65	2					NR	NR	16.08
2.9	**Benham Target Maturities Trust-2005 N** (800)-227-8380, in CA (800)-982-6150	42.24	3					0	–	23.74
5.2	**Benham Target Maturities Trust-2000 N** (800)-227-8380, in CA (800)-982-6150	32.39	4					0	–	35.44
5.2	**Benham Target Maturities Trust-1995 N** (800)-227-8380, in CA (800)-982-6150	26.38	5					0	0	54.33
171.4	**United Government** (800)-821-5664, or (816)-283-4000	16.80	6					+	0	5.65
39.9	**Capital Preservation Treasury Note Trust N** (800)-227-8380, in CA (800)-982-6150	16.43	7	54.33%	4	95.23%	8	+	0	11.04
5.9	**Benham Target Maturities Trust-1990 N** (800)-227-8380, in CA (800)-982-6150	16.08	8					0	+	79.12
154.9	**Seligman U.S. Government Guaranteed Series** (800)-221-2450, in NY (800)-522-6869	16.08	9					0	–	8.15
3416.1	**Colonial Government Securities Plus Trust** (800)-225-2365, or (617)-426-3750	15.61	10					0	0	12.72
GINNIE MAE FUNDS These funds invest a minimum of 65% of their portfolio in Government National Mortgage Association securities.										
3043.2	**Kemper U.S. Government Securities** (800)-621-2414, or (312)-781-1121	16.24	1	59.62	1	123.42	1	0	0	9.90
937.0	**Fidelity Ginnie Mae Portfolio N** (800)-544-6666, or (617)-523-1919	13.00	2					NR	NR	10.81
6.6	**Decision Funds N** (800)-221-5672, in NY (800)-522-2323	12.66	3					0	0	11.03
7016.7	**Merrill Lynch Federal Securities Trust** (800)-221-4146, in NY (800)-522-5510	12.56	4					+	0	9.87
141.3	**Lexington GNMA Income N** (800)-526-0057	11.98	5	46.72	6	99.64	4	0	0	8.22
2214.1	**Vanguard Fixed Income Securities Fund -GNMA Portfolio N** (800)-662-7447	11.69	6	53.69	2	121.71	2	0	0	10.05
2563.1	**AARP GNMA and U.S. Treasury Fund N** (800)-253-2277	11.49	7					0	0	16.19
399.3	**John Hancock U.S. Govt. Guaranteed Mortgages** (800)-225-5291	11.44	8					0	0	10.72
334.7	**Benham GNMA Income Fund N** (800)-227-8380, in CA (800)-982-6150	11.27	9					NR	NR	10.44
3138.7	**Paine Webber Fixed Income-GNMA** Call local branch	11.02	10					+	–	10.21
1058.3	**Putnam U.S. Government Guaranteed Securities Trust** (800)-225-1581, or (617)-292-1000	11.01	11					0	+	14.71
317.5	**T. Rowe Price GNMA Fund, Inc. N** (800)-636-5660, or (301)-547-2308	10.98	12					NR	NR	10.23
2114.8	**Federated GNMA Trust N** (800)-245-5000, or (412)-288-1900	10.92	13	52.30	3			0	0	11.43
507.2	**Smith Barney U.S. Government** (212)-613-2631	10.91	14					0	+	13.89
14936.5	**Franklin U.S. Government Securities Fund** (800)-632-2350	10.74	15	50.07	4	118.58	3	0	0	7.42
284.8	**Prudential-Bache GNMA Fund** (800)-872-7787, or (212)-214-1234	10.69	16	47.68	5			0	–	15.94
59.4	**Delaware GNMA Series** (800)-523-4640, or (215)-988-1331	10.34	17					0	NR	9.27

1986

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/85-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
$421.7	**Drexel Government Securities Series** (800)-272-2700, or (212)-482-1623	10.25%	18					NR	NR	$10.70
446.4	**MFS Government Guaranteed Securities** (800)-343-2923, or (617)-423-3500	10.22	19					0	0	10.32
54.9	**L.G. U.S. Government Securities** (800)-543-8721, in OH (800)-582-7396	10.15	20					0	0	10.77
2178.2	**Dreyfus GNMA Fund Inc. N** (800)-645-6561, or (516)-794-5200	9.63	21					0	–	15.70
2.7	**Security Income Fund-U.S. Government Series** (800)-255-3557	9.09	22					0	NR	5.29
10.7	**Rushmore Fund-Ginnie Mae Portfolio N** (800)-343-3355	9.02	23					NR	NR	10.01
40.0	**Colonial Government Mortgage Trust** (800)-225-2365, or (617)-426-3750	8.83	24					0	0	14.36
11099.5	**Dean Witter U.S. Government Securities Trust** (800)-221-2685	8.23	25					0	0	10.33
293.7	**Pilgrim GNMA Fund** (201)-461-7500	6.61	26					0	–	15.33

U.S. MORTGAGE FUNDS

These funds invest a minimum of 65% of their portfolio in mortgages/securities issued or guaranteed as to principal and interest by the U.S. government.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/85-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
4450.3	**Van Kampen Merritt Government** (800)-468-5900, or (312)-983-2064	14.17	1					0	0	16.57
246.3	**First Investors Government Fund** (800)-423-4026	12.51	2					0	+	12.19
9.1	**"New Beginning" Yield Fund, Inc. N** (612)-332-3223	11.84	3					–	+	11.03
14.2	**Mimlic Mortgage Securities Income Fund** (800)-328-8045, or (612)-298-3826	11.59	4					+	0	10.59
4045.9	**Prudential-Bache Government Plus Fund** (800)-872-7787, or (212)-214-1234	11.58	5					0	0	10.58
1534.1	**Shearson Managed Governments** (212)-577-7000	11.34	6					0	0	13.34
752.1	**Fidelity Mortgage Securities Fund N** (800)-544-6666, in MA (800)-225-6190	11.24	7					0	0	10.58
248.0	**Scudder Government Mortgage Securities N** (800)-225-2470	11.22	8					0	NR	15.50
756.6	**Alliance Mortgage Securities Income Fund** (800)-221-5672, in NY (800)-522-2323	11.10	9					0	–	9.74
66.1	**Bullock U.S. Government Income Shares** (800)-443-4430	10.18	10					0	–	12.49
7.1	**PDC&J Preservation Fund N** (513)-439-1010	10.07	11					0	0	11.42
207.4	**Home Investors Guaranteed Income** (800)-221-2644, or (212) 551-5313	9.60	12	45.99%	1			0	–	10.67
1107.6	**Fund for U.S. Government Securities N** (800)-245-4770	8.53	13	42.78	2	122.36%	1	0	0	8.62
59.8	**Seligman High Income-Secured Mortgage** (800)-221-2450, in NY (800)-522-6869	7.82	14					+	0	7.33

GENERAL MUNICIPAL FUNDS

These funds invest 60% or more of their assets in tax-exempt bonds issued by states and municipalities in the top four credit ratings.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/85-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
252.1	**Mutual Omaha Tax-Free Income Fund** (800)-228-9596, in NE (800)-642-8112	24.63	1	65.35	4	139.05	18	+	+	11.69
1171.9	**Hutton National Municipal Fund** (212)-742-5432	22.45	2	67.31	2			0	0	11.97
130.2	**Financial Tax-Free Income Shares N** (800)-525-8085, in CO (800)-525-9769	22.11	3	63.74	5	135.03	26	+	0	15.59
441.0	**United Municipal Bond Fund** (800)-821-5664, in MO (800)-892-5811	22.05	4	66.79	3	146.13	13	+	0	7.18

TOTAL ASSETS (MILLIONS)	FUND	TOTAL RETURN 1 YEAR		TOTAL RETURN 3 YEARS		TOTAL RETURN 5 YEARS		BULL MARKET	BEAR MARKET	NET ASSET VALUE
12/31/86		12/31/85-12/31/86	Rank	12/31/83-12/31/86	Rank	12/31/81-12/31/86	Rank	7/86-12/86 9/85-3/86	9/86-12/86 6/85-9/85	12/31/86
$523.5	**Steinroe Managed Municipals** N (800)-621-0320, or (312)-368-7826	21.93%	5	67.53%	1	170.16%	3	+	–	$9.22
324.1	**DMC Tax-Free Income-USA** (800)-523-4640	21.84	6					0	+	11.78
133.5	**Seligman Tax-Exempt Fund National Series** (800)-221-2450, in NY (800)-522-6869	21.36	7					+	+	8.34
116.2	**New England Tax-Exempt Income** (800)-343-7104	21.22	8	61.71	6	158.60	5	+	–	7.74
281.5	**Cigna Municipal Bond Fund** (800)-225-5151	21.20	9	60.12	9	138.27	20	0	0	8.41
65.2	**Thomson McKinnon Tax-Exempt Fund** N (212)-482-5894	21.13	10					NR	NR	11.46
884.9	**IDS Tax-Exempt Bond Fund** (800)-328-8300	20.95	11	59.24	13	149.55	10	0	–	4.25
810.0	**Putnam Tax-Exempt Income Fund** (800)-225-1581	20.78	12	56.03	25	170.01	4	0	+	26.27
236.4	**Lutheran Brotherhood Municipal Bond Fund** (800) 328-4552, in MN (800)-752-4208	20.71	13	52.67	32	139.64	17	0	0	8.34
585.3	**Elfun Tax-Exempt Income Fund** N (203)-357-4104	20.67	14	51.75	36	188.03	1	+	0	11.45
341.7	**John Hancock Tax-Exempt Income Trust** (800)-225-5291	20.48	15	59.85	10	124.57	35	+	0	11.10
356.6	**Federated Tax-Free Income Fund** (800)-245-5000, in PA (800)-792-2340	20.37	16	51.25	38	143.35	16	0	0	10.72
86.0	**National Securities Tax-Exempt Bonds** (800)-223-7757	20.35	17	60.14	8	145.81	14	0	+	10.26
959.7	**Dean Witter Tax-Exempt Secs.** (800)-221-2685	20.10	18	59.32	11	147.90	12	+	–	11.50
1474.1	**T. Rowe Price Tax-Free Income Fund** N (800)-638-5660	19.81	19	50.08	42	110.51	37	0	0	10.07
132.2	**Oppenheimer Tax-Free Bond Fund** (800)-525-7048	19.75	20	60.76	7	170.18	2	0	0	9.81
418.6	**Van Kampen Merritt Ins. Tax-Free Income** (800)-468-5900, or (312)-983-2064	19.68	21					0	0	17.95
21.9	**Bull & Bear Tax-Free Income Fund** N (800)-847-4200, or (212)-785-0900	19.60	22					+	0	18.17
1154.0	**Fidelity Municipal Bond Portfolio** N (800)-554-6666, in MA (800)-225-6190	19.54	23	56.54	21	138.91	19	0	0	8.28
724.7	**Vanguard Municipal Bond Fund-Long Term** N (800)-662-7447, in PA (800)-362-0530	19.40	24	56.58	20	137.57	21	0	0	11.12
38.1	**Sears Tax-Exempt Reinvestment** N (800)-221-2685	19.33	25	56.34	22			+	0	11.85
226.6	**Lord Abbett Tax-Free-National** (800)-223-4224	19.30	26					0	–	11.23
721.4	**Nuveen Municipal Bond Fund** (800)-621-7210	19.09	27	57.17	19	128.71	33	0	+	8.96
1037.3	**Kemper Municipal Bond Fund** (800)-621-2414	19.08	28	59.16	14	157.18	6	–	+	9.81
2171.4	**Franklin Federal Tax-Free Income** (800)-632-2350	18.94	29	59.29	12			0	0	12.06
65.4	**State Farm Municipal Bond Fund** N (309)-766-2029	18.90	30	56.17	23	130.49	30	0	0	7.99
31.6	**Benham National Tax-Free Trust-Long-Term Portfolio** (800)-227-8380, in CA (800)-982-6150 N	18.73	31					0	–	12.00
715.0	**Shearson Managed Municipal Fund** (212)-577-7000	18.72	32	56.16	24	145.58	15	0	+	15.58
302.0	**Tax-Exempt Bond Fund of America** (800)-421-9900	18.71	33	54.56	28	132.39	28	0	–	11.48
39.2	**DMC Tax-Free Income-U.S.A. Insured** (800)-523-4640	18.65	34					0	0	10.90
885.5	**Vanguard Municipal Bond Fund-Insured Long-Term Portfolio** (800)-662-7447, in PA (800)-362-0530 N	18.62	35					0	0	11.86
22.1	**Kidder Peabody Tax-Free Income-National** (800)-543-3377, or (212)-510-5041	18.61	36					NR	NR	15.89
141.0	**Franklin Insured Tax-Free Income Fund** (800)-632-2350	18.58	37					0	–	11.87
54.1	**Eaton Vance Municipal Bond Fund** (800)-225-6265	18.57	38	57.87	17	153.51	7	0	+	9.25
145.3	**Fidelity Insured Tax-Free Portfolio** N (800)-544-6666, in MA (800)-225-6190	18.33	39					NR	NR	11.33
9.7	**Boston Company Tax-Free Bond Fund** N (800)-343-6324, or (617)-956-9740	18.30	40					NR	NR	11.68

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
$8.2	**Unified Municipal Fund, Inc.-General Series** N (800)-821-5664, in MO (800)-892-5811	18.27%	41					–	NR	$9.27
1019.8	**Keystone Tax-Free Fund** N (800)-225-2618, or (617)-338-3400	18.22	42	54.28%	30	133.29%	27	0	0	8.84
103.2	**Colonial Tax-Exempt Insured Fund** (800)-225-2365, or (617)-426-3750	18.18	43					NR	NR	7.94
23.7	**Babson Tax-Free Income Fund-Portfolio L** N (800)-821-5591, or (816)-471-5200	18.17	44	55.12	26	136.11	25	0	0	9.30
900.5	**MFS Managed Municipal Bond Trust** (800)-343-2923, or (617)-423-3500	17.98	45	57.27	18	151.67	8	0	+	10.63
195.9	**SAFECO Municipal Bond Fund** N (800)-624-5711, in WA (800)-624-5711	17.97	46	57.97	16	148.13	11	0	0	13.97
434.2	**Keystone Tax-Exempt Trust** N (800)-225-2618, or (617)-338-3400	17.72	47					NR	NR	11.34
3.5	**MidAmerica Tax-Exempt Bond Fund** (800)-553-4287, in IA (800)-342-4490	17.42	48					0	0	11.74
361.5	**Paine Webber Tax-Exempt Income** (800)-544-9300	17.41	49					–	0	11.39
82.0	**Calvert Tax-Free Reserves-Long-Term** N (800)-368-2748	17.36	50	50.10	41			0	0	16.36
3718.6	**Dreyfus Tax-Exempt Bond Fund** N (800)-645-6561, or (516)-794-5200	17.34	51	52.24	33	137.07	23	0	+	13.01
2236.0	**Merrill Lynch Municipal Bond-Insured** (800)-221-4146, in NY (800)-522-5510	17.24	52	52.07	35	128.55	34	–	0	8.18
901.8	**USAA Tax-Exempt-High-Yield Fund** N (800)-531-8000, in TX (800)-292-8181	17.20	53	54.83	27			0	+	13.79
10.2	**Country Capital Tax-Exempt Bond Fund** (309)-557-2444	17.18	54	50.31	40	120.61	36	0	–	8.54
54.2	**General Tax-Exempt Bond Fund** N (800)-223-5682	17.11	55					–	0	14.89
205.8	**Dreyfus Insured Tax-Exempt Bond Fund, Inc.** N (800)-645-6561 or (516)-794-5200	17.04	56					0	0	18.40
4.5	**United Services Tax-Free Fund** N (800)-531-5777	17.04	57					0	0	11.42
434.3	**Shearson Lehman Tax-Exempt Income** N (212)-577-7000	16.85	58					–	NR	17.20
239.6	**Putnam Tax-Free Income-Insured** N (800)-225-1581, or (617)-292-1000	16.82	59					0	NR	14.55
664.6	**Scudder Managed Municipal Bonds** N (800)-225-2470	16.80	60	51.29	37	136.51	24	0	+	8.93
118.3	**Columbia Municipal Bond Fund** N (800)-547-1037	16.77	61					0	–	11.75
34.4	**Insured Quality Tax-Free Bond Portfolio** (800)-231-4645, in TX (800)-392-7802	16.75	62	52.88	31			0	–	11.40
3.6	**Decision Funds-Tax-Free Fund** N (800)-221-5672, in NY (800)-522-2323	16.67	63					0	–	11.08
14.9	**Sigma Tax-Free Bond Fund** (800)-441-9490	16.67	64	54.44	29	137.36	22	0	–	9.28
27.0	**State Bond Tax-Exempt Fund** (800)-328-4735	16.49	65					0	0	10.68
180.8	**American Capital Municipal Bond Fund** (800)-421-5666	16.33	66	58.30	15	149.78	9	0	+	21.23
166.2	**AARP Insured Tax-Free General Bond Fund** N (800)-253-2277	16.29	67					0	+	16.89
116.4	**Bullock Tax-Free Shares** (800)-443-4430	16.20	68	52.10	34	131.76	29	NR	NR	11.19
727.0	**First Investors Tax-Exempt Fund** (800)-423-4026	15.52	69	48.41	43	129.96	31	–	+	10.14
15.2	**Security Tax-Exempt Fund** (800)-255-3557	15.18	70					0	+	10.68

INTERMEDIATE MUNICIPAL FUNDS

These funds invest in tax-exempt bonds that have maturities in the range of two years to twenty years.

25.3	**UST Master Tax-Exempt Funds, Inc.** N (800)-773-1136	17.86	1					NR	NR	8.83
998.3	**Vanguard Municipal Bond Fund -Intermediate** N (800)-662-7447, in PA (800)-362-0530	16.22	2	49.35	1	108.47	1	0	–	12.29
1206.1	**Dreyfus Intermediate Tax-Exempt Bond Fund** N (800)-645-6561, or (516)-794-5200	15.43	3	43.97	3			0	0	14.12
578.2	**Fidelity Limited-Term Municipals** N (800)-544-6666, in MA (800)-225-6190	15.19	4	48.47	2	105.39	2	0	–	9.58

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
$21.2	**Scudder Tax-Free Target Fund-1996** N (800)-225-2470	15.06%	5					0	NR	$11.17
18.1	**Benham National Tax-Free-Intermediate** N (800)-227-8380, in CA (800)-362-6150	14.24	6					0	0	10.32
166.1	**Fidelity Tax-Free Limited Term Municipals** N (800)-544-6666, in MA (800)-225-6190	13.72	7					0	NR	10.86
117.7	**Scudder Tax-Free Target Fund-1993** N (800)-225-2470	13.38	8	40.73%	5			+	0	11.04
337.7	**USAA Tax-Exempt Fund, Inc.-Intermediate Term** N (800)-531-8000, in TX (800)-292-8181	13.18	9	43.17	4			+	–	12.35
173.8	**Benham Calif. Tax-Free Intermediate-Term** N (800)-227-8380, in CA (800)-982-6150	12.56	10	35.36	7			0	0	10.67
104.7	**Steinroe Intermediate Municipals, Inc.** N (800)-621-0320, or (312)-368-7826	12.14	11					NR	NR	10.76
9.4	**Fund for Tax-Free Investors,-Intermediate** N (301)-657-1500	12.06	12	37.62	6			0	–	10.74
112.8	**Federated Intermediate Municipal Trust** N (800)-245-5000, in PA (800)-792-2340	11.72	13					NR	NR	10.51
97.3	**Limited-Term Municipal Fund** (800)-847-0200, or (505)-984-0200	11.28	14					0	+	12.90
104.1	**Scudder Tax-Free Target Fund-1990** N (800)-225-2470	10.61	15	32.85	8			0	0	10.34
15.2	**Babson Tax-Free Income Fund-Portfolio S** N (800)-821-5591, or (816)-471-5200	10.41	16	32.64	9	65.99%	3	0	0	10.93
306.9	**T. Rowe Price Tax-Free Short Intermediate Fund** N (800)-638-5660	9.70	17	27.55	11			0	0	5.27
98.9	**Municipal Fund for Temporary Investors -Intermediate** N (800)-221-8120, or (212)-640-6155	9.47	18	26.11	12			0	0	10.44
249.1	**USAA Tax-Exempt Fund, Inc.-Short-Term** N (800)-531-8000, in TX (800)-292-8181	8.67	19	28.04	10			0	0	10.71
23.8	**Midwest Group Tax-Free Income Trust Limited Term** N (800)-543-8721, in OH (800)-582-7396	8.35	20	24.43	14	43.61	5	0	0	10.47
57.7	**AARP Insured Tax-Free Short-Term Bond Fund** N (800)-253-2277	8.31	21					–	0	15.64
189.5	**Calvert Tax-Free Reserves-Limited-Term** N (800)-368-2748	8.14	22	25.85	13	51.90	4	0	+	10.67
514.0	**Federated Short-Intermediate Municipal** N (800)-245-5000, in PA (800)-792-2340	7.59	23	22.55	18	42.60	6	0	+	10.38
693.6	**Merrill Lynch Municipal Bond Fund-Limited Maturity** (800)-221-4146, in NY (800)-522-5510	7.47	24	22.64	17	42.00	7	0	+	9.90
1051.4	**Vanguard Municipal Bond Fund-Short Term** N (800)-662-7447, in PA (800)-362-0530	7.39	25	22.66	16	41.96	8	0	+	15.44
35.5	**Scudder Tax-Free Target Fund-1987** N (800)-225-2470	6.63	26	24.20	15			NR	NR	10.03

HIGH-YIELD MUNICIPAL FUNDS

These funds invest in lower-rated tax-exempt bonds (frequently labeled junk bonds) for 50% of their portfolio.

227.9	**Van Kampen Merritt Tax-Free High Income** (800)-468-5900, or (312)-983-2064	21.55	1					0	NR	16.77
274.3	**T. Rowe Price Tax-Free High Yield Fund** N (800)-638-5660	20.40	2					0	0	11.92
3730.2	**IDS High-Yield Tax-Exempt Fund** (800)-328-8300	20.37	3	60.32	2	150.77	1	0	–	4.69
901.7	**Vanguard Municipal Bond-High Yield** N (800)-662-7447, in PA (800)-362-0530	19.70	4	59.77	3	139.67	5	+	0	10.67
49.8	**GIT Tax-Free Trust-High Yield** N (800)-336-3063, in VA (800)-572-2050	19.36	5	51.31	6			0	–	11.45
1808.2	**Merrill Lynch Municipal Bond Fund-High Yield** (800)-221-4146, in NY (800)-522-5510	19.08	6	58.18	5	140.21	4	0	0	10.67
2279.3	**Fidelity High-Yield Municipals** N (800)-544-6666, in MA (800)-225-6190	18.89	7	58.64	4	142.88	3	+	0	13.29
225.4	**SteinRoe High-Yield Municipals** N (800)-621-0320, or (312)-368-7826	18.80	8					–	+	12.06
1103.5	**Prudential-Bache High-Yield Municipals** (800)-872-7787	18.70	9	60.62	1	145.98	2	0	0	16.18
392.5	**Fidelity Aggressive Tax-Free Portfolio** N (800)-544-6666, in MA (800)-225-6190	17.74	10					0	NR	11.56
482.6	**Putnam Tax-Free Income-High Yield** N (800)-225-1581, or (617)-292-1000	17.64	11					0	NR	14.32
354.4	**Fidelity New York Tax-Free Fund-High Yield** N (800)-544-6666, in MA (800)-225-6190	16.79	12					0	–	12.26
1354.0	**Colonial Tax-Exempt High-Yield Trust** (800)-225-2365, or (617)-426-3750	15.87	13	36.59	7	90.35	6	–	+	13.73

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
$259.4	**Value Line Tax-Exempt Fund-High Yield** N (800)-223-0818	13.67%	14					0	0	$10.81
780.2	**Eaton Vance High-Yield Municipals Trust** (800)-225-6265	12.88	15					NR	NR	10.41
423.3	**MFS Managed High-Yield Municipal Bond** (800)-343-2923, or (617)-423-3500	12.32	16					0	+	10.31
143.1	**Principal Preservation Tax-Exempt Fund** (800)-558-1775, or (414)-334-5521	4.96	17					NR	NR	8.81

CALIFORNIA MUNICIPAL FUNDS

These funds invest in tax-exempt bonds issued by localities in the State of California.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
51.5	**MFS Managed California Tax-Exempt Trust** N (800)-343-2923, or (617)-423-3500	21.23	1					–	0	5.26
125.1	**Franklin California Insured Tax-Free Income** (800)-632-2350	20.63	2					0	+	11.79
12.3	**Van Kampen Merritt California Insured Tax-Free** (800)-468-5900	19.97	3					NR	NR	16.27
233.5	**Benham California Tax-Free Trust-Long-Term** N (800)-227-8380, in CA (800)-982-6150	19.23	4	48.69%	7			0	0	11.49
153.6	**Paine Webber California Tax-Exempt Income Fund** (800)-544-9300	19.19	5					NR	NR	11.18
57.6	**Lord Abbett California Tax-Free Income** N (800)-223-4224	18.92	6					0	NR	10.69
58.8	**Seligman California Tax-Exempt High Yield** (800)-221-2450, in NY (800)-522-6869	18.91	7					+	+	6.57
32.3	**SAFECO California Tax-Free Income Fund, Inc.** N (800)-624-5711, in WA (800)-843-4360	[illegible]54	8					0	–	12.02
98.5	**Pacific Horizon Funds-Calif. Tax-Exempt Bond Portfolio** N (800)-645-3515	18.45	9					0	0	14.45
61.5	**Seligman California Tax-Exempt-Quality** (800)-221-2450, in NY (800)-522-6869	18.38	10					0	–	6.78
214.6	**Kemper California Tax-Free Income Fund** (800)-621-2414	18.35	11	55.96	1			–	+	7.30
357.2	**Dean Witter California Tax-Free Income** (800)-221-2685	18.32	12					+	–	12.25
1009.3	**Putnam California Tax-Exempt Income** (800)-225-1581, or (617)-292-1000	18.29	13	53.12	3			–	+	15.96
184.3	**Shearson California Municipals** (212)-577-7000	18.08	14					+	0	16.18
85.4	**National Securities California Tax-Exempt Bonds** (800)-223-7757	17.87	15	50.08	5			0	0	13.20
587.8	**Merrill Lynch California Tax-Exempt Fund** N (800)-221-4146, in NY (800)-522-5510	17.83	16					0	0	11.63
1305.3	**Dreyfus California Tax-Exempt Bond** N (800)-645-6561, or (516)-794-5200	17.73	17	45.91	9			0	0	15.47
578.9	**Fidelity California Tax-Free High Yield** N (800)-544-6666, in MA (800)-225-6190	17.53	18					0	–	11.80
193.4	**Hutton California Municipal Fund** (212)-742-5432	17.44	19	51.51	4			0	0	11.08
131.4	**Prudential-Bache California Municipal** N (800)-872-7787	16.96	20					0	0	11.54
175.3	**Scudder California Tax-Free Fund** N (800)-225-2470	16.91	21	48.24	8			0	0	11.01
7662.3	**Franklin California Tax-Free Income** (800)-632-2350	16.47	22	49.77	6	101.29%	1	0	+	7.22
23.5	**Vallock Insured California Tax-Exempt Shares** (800)-443-4430	16.01	23					NR	NR	13.06
156.3	**Eaton Vance California Municipal Trust** (800)-225-6265	14.97	24					NR	NR	10.68
4.8	**California Municipal Fund** N (800)-227-1549	9.81	25					0	+	9.23

MASSACHUSETTS MUNICIPAL BOND FUNDS

These funds invest in tax-exempt bonds issued by localities in the State of Massachusetts.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
84.5	**Dreyfus Mass. Tax-Exempt Bond Fund** N (800)-645-6561, or (516)-794-5200	17.92	1					0	–	16.75
227.6	**MFS Managed Tax-Exempt Trust-Massachusetts** (800)-343-2923, or (617)-423-3500	17.62	2					0	NR	11.02

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
$724.1	**Fidelity Mass. Tax-Free-Municipal Bond** N (800)-544-6666, in MA (800)-225-6190	16.89%	3	51.70%	1			0	0	$11.66
15.2	**Boston Company Mass. Tax-Free Bond** N (800)-343-6324	16.61	4					0	NR	11.43
37.7	**Prudential-Bache Massachusetts Municipal** N (800)-872-7787	16.19	5					0	+	11.39
142.5	**Seligman Tax-Exempt-Massachusetts** (800)-221-2450, in NY (800)-522-6869	16.10	6					0	0	8.03
48.2	**Investment Trust of Boston-Massachusetts Tax-Free** (800)-451 0502, or (617)-542-0213	15.94	7					0	0	16.83
61.3	**Franklin Massachusetts Insured Tax-Free Income** (800)-632-2350	14.69	8					+	–	11.25

MICHIGAN MUNICIPAL FUNDS

These funds invest in tax-exempt bonds issued by localities in the State of Michigan.

72.7	**Flagship Tax-Exempt Funds Trust-Michigan Double Tax-Exempt** (800)-227-4648, in OH (800)-354-7447	20.22	1					–	NR	10.77
126.7	**Fidelity Michigan Tax-Free Portfolio** N (800)-544-6666, or MA (800)-225-6190	18.91	2					NR	NR	11.38
37.9	**Prudential-Bache Municipal-Michigan** N (800)-872-7787	18.88	3					+	0	11.46
111.7	**Seligman Tax-Exempt-Michigan** (800)-221-2450, in NY (800)-522-6869	18.34	4					0	0	8.37
186.6	**Franklin Michigan Insured Tax-Free Income** (800)-632-2350	17.34	5					0	–	11.54

MINNESOTA MUNICIPAL FUNDS

These funds invest in tax-exempt bonds issued by localities in the State of Minnesota.

94.7	**Franklin Minnesota Insured Tax-Free Income** (800)-632-2350	17.57	1					0	–	11.87
93.1	**Fidelity Minnesota Tax-Free Portfolio** N (800)-544-6666, in MA (800)-225-6190	17.04	2					NR	NR	10.99
12.3	**Prudential-Bache Municipal-Minnesota** N (800)-872-7787	16.84	3					0	0	11.48
118.7	**Seligman Tax-Exempt-Minnesota** (800)-221-2450, in NY (800)-522-6869	16.20	4					+	0	7.90
106.5	**Double Exempt Flex Fund** (800)-652-0204	15.67	5					0	+	11.85

NEW YORK STATE MUNICIPAL FUNDS

These funds invest in tax-exempt bonds issued by localities in the State of New York.

863.1	**Putnam New York Tax-Exempt Income Fund** (800)-225-1581, or (617)-292-1000	18.45	1	57.56	1			0	+	17.37
217.4	**Shearson New York Municipals** (212)-577-7000	18.10	2					0	0	16.71
79.3	**Seligman Tax-Exempt-New York** (800)-221-2450, in NY (800)-522-6869	17.76	3					0	0	8.24
2421.0	**Franklin New York Tax-Free Income Fund** (800)-632-2350	17.74	4	57.06	2			+	0	11.64
260.1	**New York Muni Fund, Inc.** N (800)-277-1549, or (212)-422-7490	17.66	5	53.00	4	106.56%	1	+	0	1.25
113.0	**Dean Witter New York Tax-Free Income Fund** N (800)-221-2685	17.64	6					–	0	11.57
291.6	**Prudential-Bache Municipal-New York** N (800)-872-7787	17.49	7					0	0	11.74
57.6	**Oppenheimer New York Tax-Exempt Fund** (800)-525-7048	17.36	8					0	0	12.68
158.2	**Fidelity New York Tax-Free Fund-Insured Portfolio** N (800)-544-6666, in MA (800)-225-6190	17.33	9					NR	NR	11.28
260.3	**Hutton New York Municipal Fund** (800)-742-5432	17.24	10	54.97	3			0	0	11.32
1646.9	**Dreyfus New York Tax-Exempt Bond Fund** N (800)-645-6561, or (516)-794-5200	17.07	11	52.63	5			0	–	15.89
83.3	**First Investors New York Tax-Free Fund** (800)-423-4026	17.03	12					0	0	14.25
599.4	**Merrill Lynch New York Municipal Bond** (800)-221-4146, in NY (800)-522-5510	16.97	13					NR	NR	11.24
107.5	**Lord Abbett Tax-Free-New York** (800)-223-4224	16.62	14					0	–	11.29
10.8	**Kidder Peabody Tax-Free Income-New York** (800)-543-3377	15.99	15					NR	NR	15.64

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
$38.9	**Empire Builder Tax-Free Bond Fund** (800)-451-0502, or (617)-542-0213	15.48%	16					0	0	$17.72
137.6	**Scudder New York Tax-Free Fund** **N** (800)-225-2470	14.28	17	45.01%	6			0	0	11.31
63.1	**Park Avenue New York Tax-Exempt Intermediate** **N** **Bond Fund** (800)-645-6561, or (516)-794-5200	14.20	18					–	+	19.05
4.0	**Tax-Free Bond Portfolio-New York** **N** (800)-621-1048	12.62	19					NR	NR	10.25

OHIO MUNICIPAL FUNDS

These funds invest in tax-exempt bonds issued by localities in the State of Ohio.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
132.7	**Flagship Tax-Exempt Funds Trust-Ohio Double Tax-Exempt** (800)-227-4648, in OH (800)-354-7447	17.48	1					–	NR	10.60
155.9	**Franklin Ohio Insured Tax-Free Income** (800)-632-2350	17.31	2					0	–	11.53
125.1	**Seligman Tax-Exempt-Ohio** (800)-221-2450, in NY (800)-522-6869	17.04	3					0	0	8.15
14.8	**Midwest Group Tax-Free Trust, Ohio** **N** **Long Term Portfolio** (800)-543-8721, in OH (800)-582-7396	16.55	4					0	0	11.41
106.3	**Fidelity Ohio Tax-Free Portfolio** **N** (800)-544-6666, in MA (800)-225-6190	16.46	5					NR	NR	10.97
65.3	**Prudential-Bache Municipal-Ohio** **N** (800)-872-7787	15.54	6					0	0	11.59

STATE MUNICIPAL FUNDS

These funds invest in tax-exempt bonds issued by localities in a single state.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
12.0	**Unified Municipal Fund-Indiana Series** **N** (800)-862-7283	19.02	N/A					0	NR	9.33
368.2	**DMC Tax-Free Income Trust-Pennsylvania** (800)-523-4640	18.30		54.11		138.97%		0	0	8.05
11.5	**Oregon Municipal Bond** (503)-223-2086	17.70						0	0	12.10
33.7	**Prudential-Bache Municipal-North Carolina** **N** (800)-872-7787	17.45						0	0	11.28
97.5	**MFS Managed Tax-Exempt Trust-North Carolina** (800)-343-2923, or (617)-423-3500	17.28						0	0	11.53
27.4	**Prudential-Bache Municipal-Georgia** **N** (800)-872-7787	16.94						0	–	11.70
45.3	**Prudential-Bache Municipal-Arizona** **N** (800)-872-7787	16.83						0	–	11.45
56.4	**Kentucky Tax-Free Income** **N** (800)-432-9518	16.77		46.23		92.48		–	+	6.96
51.4	**Seligman Tax-Exempt-Louisiana** (800)-221-2450, in NY (800)-522-6869	16.73						NR	NR	7.98
77.4	**MFS Managed Tax-Exempt Trust-Maryland** (800)-343-2923, or (617)-423-3500	16.57						–	+	11.01
25.0	**MFS Managed Tax-Exempt Trust-South Carolina** (800)-343-2923, or (617)-423-3500	16.42						0	+	11.34
31.7	**MFS Managed Tax-Exempt Trust-West Virginia** (800)-343-2923, or (617)-423-3500	16.25						–	+	11.10
170.5	**MFS Managed Tax-Exempt Trust-Virginia** (800)-343-2923, or (617)-423-3500	15.79						0	0	11.12
10.5	**Prudential-Bache Municipal-Oregon** **N** (800)-872-7787	15.18						–	0	11.42
156.9	**Hawaiian Tax-Free Trust** (800)-228-4227, or (212)-697-6666	14.95						0	0	11.09
1.9	**Rhode Island Tax-Free Bond** (800)-633-3421	14.73						NR	NR	10.79
29.2	**Prudential-Bache Municipal-Maryland** **N** (800)-872-7787	14.44						0	–	10.95
3.6	**Principal Arizona Tax-Free** (602)-998-5557	13.88		43.01				–	+	5.58
52.3	**Seligman Tax-Exempt-Maryland** (800)-221-2450, in NY (800)-522-6869	13.62						NR	NR	7.76
12.7	**Franklin Puerto Rico Tax-Free Income Fund** (800)-632-2350	8.60						0	0	11.23

GENERAL CORPORATE FUNDS

These funds invest in corporate bonds of varying investment grades.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
1912.8	**IDS Bond Fund** (800)-328-8300	19.51	1	60.60	5	151.75	3	0	0	5.30

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/86-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
$364.9	**IDS Life Special Income Fund** N (800)-328-8300	18.91%	2					+	NR	$12.03
623.7	**General Electric SAS Long-Term Interest** N (203)-357-4104	18.29	3	67.35%	2	146.16%	4	0	0	12.42
93.2	**INA Investment Securities** closed-end fund	16.67	4	64.36	4	136.49	7	0	–	19.58
217.2	**InterCapital Income Securities** closed-end fund	16.46	5	65.50	3	153.22	2	0	+	20.65
16.4	**New England Zenith Bond Inc.** N (617)-578-4477	15.85	6	54.83	11			0	0	123.45
10.9	**Maxim Bond** N (800)-537-2033 ext. 4345	15.51	7	55.68	9			0	–	1.27
48.8	**Boston Company Managed Income Fund** N (800)-343-6324, or (617)-956-9740	15.11	8	57.12	8	102.77	13	0	+	11.91
53.9	**Drexel Bond-Debenture Trading** (800)-272-2700	14.70	9	69.55	1	158.04	1	0	–	21.18
75.7	**CNA Income Shares** closed-end fund	14.56	10	59.01	6	137.82	6	0	0	11.89

CORPORATE FUNDS A-RATED

These funds invest 60% of their corporate holdings in A-rated issues or better.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/86-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
419.7	**Hutton Investment Series-Bond & Income** (212)-742-5432	19.43	1	73.29	2			0	–	12.95
109.0	**Fort Dearborn Income Securities** closed-end fund	18.79	2	80.80	1	170.46	1	0	–	15.98
23.0	**Sentinel Bond Fund** (800)-233-4332	16.00	3	54.91	17	117.64	16	+	–	6.58
27.8	**Bond Portfolio for Endowments** N (800)-421-9900	15.74	4	60.82	7	131.73	7	0	0	943.63
46.2	**Bunker Hill Income Securities** (213)-229-1290	15.50	5	53.32	20	124.34	11	0	0	18.08
26.4	**Phoenix High Quality Bond Fund** N (800)-243-1574	15.29	6	54.19	18			0	0	10.21
339.8	**United Bond Fund** (800)-821-5664, in MO (800)-892-5811	15.25	7	62.50	6	148.41	2	0	0	6.42
694.3	**Bond Fund of America** (800)-421-9900	15.17	8	63.37	4	138.05	4	+	+	14.21
7.9	**Scudder Target Fund-General 1994** N (800)-225-2470	14.65	9					–	+	11.92
220.3	**Kemper Income & Capital Preservation Fund** (800)-621-2414	14.57	10	56.80	11	133.39	6	–	0	9.08

CORPORATE FUNDS BBB-RATED

These funds invest 60% of their corporate holdings in the top four grades of bonds.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/86-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
24.7	**Financial Bond Shares-Select Income** N (800)-525-8085, in CO (800)-525-9769	18.89	1	53.52	12	110.68	12	0	0	7.10
1201.4	**IDS Selective** (800)-328-8300	18.04	2	58.98	8	155.96	1	0	+	9.08
1.2	**Horace Mann Income Fund Inc.** N (217)-789-2500	17.33	3					0	0	13.96
127.2	**IDS Strategy Fund-Income Portfolio** (800)-328-8300	17.14	4					0	0	6.22
128.0	**MAS Fixed Income** N (215)-668-0850	16.68	5					+	0	29.43
49.6	**Axe-Houghton Income** N (914)-631-8131	16.06	6	69.69	1	139.12	4	0	0	5.60
200.8	**SteinRoe Managed Bonds** N (800)-621-0320, or (312) 368-7826	16.00	7	59.68	6	117.11	8	+	0	9.26
73.4	**Guardian Bond Fund** N (800)-221-3253, in NY (800) 522-7800	14.84	8	58.85	9			0	0	12.41
550.1	**Paine Webber Fixed-Income-Investment Grade** (800)-544-9300	14.33	9					+	–	10.75
697.8	**Vanguard Fixed-Income Securities** N **-Investment Grade** (800)-662-7447, in PA (800)-362-0530	14.33	10	59.09	7	118.67		NR	NR	8.73

CORPORATE FUNDS BBB-RATED-TRADING

These funds invest 60% of their corporate holdings in the top four grades of bonds. They may turn their portfolios over more than 100% a year in an attempt to increase the returns.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/86-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
92.9	**Vestaur Securities** closed-end fund	23.10	1	83.75	1	173.24	2	0	0	14.56
48.4	**Current Income Shares** closed-end fund	19.91	2	83.34	2	185.27	1	0	0	13.18

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
$96.9	**Pacific American Income Shares** closed-end fund	15.69%	3	68.80%	3	151.03%	3	0	0	$16.92
333.4	**Massachusetts Financial Bond** (800)-343-2923	15.56	4	62.94	7	140.51	7	0	+	14.66
145.9	**Criterion Bond Investment Quality** (800)-231-4645, in TX (800)-392-7802	15.45	5	60.15	8	126.35	8	+	–	10.14
54.1	**Hatteras Income Securities** closed-end fund	15.03	6	64.07	5	145.31	6	0	+	17.94
155.0	**John Hancock Income Securities** (800)-225-5291	14.63	7	64.37	4	146.80	4	0	0	16.90
125.5	**Merrill Lynch Corporate Bond-Intermediate** (800)-221-4146, in NY (800)-522-5510	14.34	8	56.26	9	116.68	11	–	0	11.87
113.7	**AMEV Securities** (800)-872-2638	14.00	9	54.89	10	119.63	10	0	–	11.21
159.5	**Montgomery Street Income** closed-end fund	13.99	10	63.86	6	146.16	5	0	0	19.93

HIGH-YIELD CORPORATE FUNDS

These funds may invest in corporate bonds of below investment grade ratings (frequently labeled junk bonds). They emphasize high current yield.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
23.1	**First Investors Special Bond Fund** (800)-423-4026	19.26	1	63.65	1			0	+	14.55
229.6	**Investment Portfolio-High Yield** (800)-621-2414	18.71	2					0	0	9.83
11.0	**Liberty Fund N** (800)-367-0770, or (212)-850-8300	18.32	3	51.61	13	114.56	18	–	0	4.73
384.1	**Kemper High-Yield Fund** (800)-621-2414	18.26	4	60.38	3	163.25	1	0	0	11.45
1671.8	**Fidelity High-Income Fund N** (800)-544-6666, in MA (800)-225-6190	17.94	5	63.62	2	162.90	2	0	0	9.72
1251.9	**Vanguard Fixed-Income Securities-High Yield N** (800)-662-7447, in PA (800)-362-0530	16.86	6	53.76	8	125.59	12	0	0	9.20
1705.1	**Dean Witter High-Yield Securities** (900)-221-2685	16.80	7	51.77	12	136.95	6	0	0	14.11
3.0	**Fundtrust High-Yield Fund** (800)-845-8406, or (212)-309-8400	16.64	8					NR	NR	10.38
266.4	**Delchester Bond Fund** (800)-523-4640	16.56	9	57.29	4	144.13	4	0	0	8.05
960.7	**IDS Extra Income Fund** (800)-328-8300	16.41	10	53.44	9			0	–	5.16

CONVERTIBLE SECURITIES FUNDS

These funds invest in convertible bonds and convertible preferred stocks.

TOTAL ASSETS (MILLIONS) 12/31/86	FUND	TOTAL RETURN 1 YEAR 12/31/85-12/31/86	Rank	TOTAL RETURN 3 YEARS 12/31/83-12/31/86	Rank	TOTAL RETURN 5 YEARS 12/31/81-12/31/86	Rank	BULL MARKET 7/86-12/86 9/85-3/86	BEAR MARKET 9/86-12/86 6/85-9/85	NET ASSET VALUE 12/31/86
196.5	**Dreyfus Convertible Securities Fund N** (800)-645-6561, or (516)-794-5200	24.57	1	66.23	1	136.21	4	–	+	8.87
111.3	**Phoenix Convertible Fund** (800)-243-4631	17.24	2	49.83	4	156.93	1	0	0	17.44
74.5	**Value Line Convertible Fund N** (800)-223-0818	16.27	3					0	0	11.53
18.1	**Noddings Calamos Convertible Funds-Income N** (800)-251-2411, in IL (800)-821-6548	16.14	4					0	0	11.23
917.7	**Putnam Convertible Income-Growth** (800)-225-1581, or (617)-292-1000	15.90	5	55.29	2	130.75	5	0	0	16.24
9.3	**Noddings Calamos Convertible Funds-Growth N** (800)-251-2411, in IL (800)-821-6548	15.61	6					–	0	11.10
82.0	**American Capital Convertible Securities** (800)-421-5666	14.85	7	49.09	5	154.27	2	+	0	27.33
82.0	**American Capital Convertible Securities** (800)-421-5666	14.85	7	49.09	5	154.27	2	+	0	27.33
316.7	**American Capital Harbor** (800)-421-5666	13.73	8	35.07	6	145.70	3	0	0	13.43
1587.0	**Dean Witter Convertible Securities** (800)-221-2685	13.66	9					NR	NR	11.03
57.8	**Bancroft Convertible Fund** closed-end fund	12.58	10	52.05	3	101.36	7	0	0	25.66

Footnotes: N after a fund name means there is no sales charge; NA mean not applicable. NR means the fund was not rated.

Definitions: Total Return is the increase in a fund's net asset value from interest income and capital gains or losses. Bull Market is a period of rising bond prices (and falling interest rates). Bear Market is a period of falling bond prices (and rising interest rates). Plus (+) means the fund outperformed the average of all funds in the same category during the periods indicated. Minus (–) means the fund underperformed the average of all funds in the same category during the periods indicated. 0 means that the fund outperformed in one period and underperformed in the other.

Source: Lipper Analytical Services

Solving Today's Personal Computer Riddles

Corporate users of personal computers and software are being forced to reassess their computing needs and rethink their buying strategies by dramatic and fast-paced changes in microprocessor-based technology. "New products will make quantum leaps in how PCs are used," says Michele S. Preston, vice president at the New York-based investment banking firm Salomon Brothers, "and the corporate user who has figured out his PC strategy stands to benefit from these advances."

While new products abound in the PC hardware and software field, the market is also being impacted by the abundance of PC compatibles being offered; the acceptance of the PC AT as a standard in the business community; new software developments and the emergence of new technologies such as expert systems and desktop publishing.

Here's a look at each of these developments and how corporate users are reacting to them.

Buying a PC Today: Chance for Savings, But Time for Caution

The PC corporate market has largely been the preserve of IBM. But over 175 different compatible manufacturers now deluge the market, outstripping IBM U.S. sales in 1986 by almost 500,000 machines—the first such year in what is likely to become a trend. Many of these compatibles not only are cheaper than the IBM machines, but they perform just as well, making them an attractive alternative in terms of price and performance.

Corporate users, testing the waters beyond IBM, are buying compatibles to supplement their existing IBM gear. Chary of no-name, bargain-basement machines, they are taking their business to such established vendors as AT&T, Compaq, Tandy and Zenith—who last year together cornered almost 23% of the business/professional market. These vendors outfit the basic architecture of the computer with features many of the IBM machines do not include. They also have distribution networks to provide support long after the initial purchase.

As compatibles become integral parts of office systems, companies are beginning to look more closely at such issues as vendor viability and reliability. For example, at McDonnell Douglas Corp.'s Information Systems Group in St. Louis, the AT&T 6300 Plus shares the corporate standards list with the IBM PC AT. Chosen for its speed and cost, the AT&T model also comes backed by a vendor with whom McDonnell Douglas has a long-standing relationship. "AT&T has a real long-term strategy that fits with our strategy and where we're heading," says Harvey Leemon, manager of information services. "Buying them just because they are tremendously cheaper was not good business."

And the experts claim it will not be good business in 1987 either. To date, anybody with the resolve and know-how could copy the four-year old, open architecture of an IBM personal computer. With new proprietary hardware expected from IBM, Apple and Compaq, this may change, as it will be more difficult to copy state-of-the-art advances.

Also, the market should see more price cuts among the compatible manufacturers, industry observers say, and some of the marginal vendors may not survive. "They've been riding these river rapids, and now a 400-foot waterfall is approaching quickly," says Aaron Goldberg, an analyst at International Data Corp. (IDC) in Framingham, Massachusetts. "And many of the less well-managed compatible vendors will be swept away."

The 286s: More Chip Power

When IBM ushered in the second generation of PCs with its PC AT in 1984, it shifted the focus of corporate PC strategies. The brain of the AT is Intel's 80286 microprocessor, a faster and more powerful chip than the older 8088 found in the low-end PCs. "If you're looking at your machine as more than a mere computing appliance, and if you want to expand your applications several times," Goldberg advises, "then you should buy a 80286."

Today, PC AT machines outsell the PC XT in corporate markets. "The difference in price between the two is relatively negligible from the increased power that you get, especially with the compatibles," says Thomas H. Roberts, research manager of personal computer research at IDC. "None of our major corporate clients . . .is seriously considering buying a lot of 8088 or 8086-based machines; all of them are buying 80286 technology."

Here again, the compatibles are making a run on IBM. McDonnell Douglas is one of a burgeoning number of blue-chip companies—Martin Marietta, Firestone, Burlington Northern, Price Waterhouse and American Savings and Loan among them—that have bought compatibles.

A clear winner among the purveyors of 286 technology is Tandy Corp. of Fort Worth, Texas, whose 3000 series computers have sold well in the business community. As an indication of Tandy's success, Beckman Instruments, a subsidiary of Smith Kline Beckman in Brea, California, recently integrated over 75 Tandy computers with its existing IBM equipment. Dennis Born, a project supervisor for the diagnostic systems group, says, "The main reason [for buying the Tandy 3000] was cost. We could get two Tandy machines for the price of one IBM PC AT . . . , and it's faster."

A relatively new company called PCs Limited, Austin, Texas, is also having noteworthy success selling high-end IBM compatibles in the business market. Though it's been in existence for less than two years, PCs Limited sold 70,000 units for $76 million in revenues in 1986. With a clock speed of 12-MHz, its 286 runs twice as fast as the original IBM PC AT and is priced at $2,695, a savings of $1,300 over the IBM machine.

Among the other manufacturers who offer 286, or AT-class machines, are NEC Information Systems, Foxborough, Massachusetts; Zenith Data Systems, Glenview, Illinois; TeleVideo Systems, Inc., and Kaypro Corp., Sunnyvale and Solana Beach, California, respectively.

The 386s: Extraordinary Speed

No sooner did the business community jump on the 80286 bandwagon than it is being forced to decide whether it needs the latest in microprocessor technology, Intel's 80386 chip—which will be to computing, enthusiasts maintain, what the jet engine was to aviation. "The 80386 offers users extremely high performance," says Stella Kelly, an analyst at research firm Dataquest in San Jose, California. "It runs at four million instructions per second, more than ten times the speed of the IBM PC."

Less than nine months on the market, the 80386 has already gained extraordinary acceptance. Compaq Computer of Houston, Texas, introduced the first 80386-based PC, the Deskpro 386, last September and then sold over 25,000 of them by year's end. That's an incredible response to a PC priced at $6,500, and the majority of the machines are being bought to satisfy users' present needs, not in anticipation of future requirements. "It's being acquired by 'power users' in the corporation," Kelly explains, "financial analysts or executives who do intensive spreadsheeting and number crunching with large databases."

Although corporate users already have purchased the Compaq 386, many industry pundits are bickering over the wisdom of such a move with an IBM version due out late this year. A recent Dataquest report on 80386-based systems says, "IBM could implement performance enhancements to future 386 chip designs that would be difficult for compatible manufacturers to duplicate, giving IBM the ammunition to regain lost market share."

Among micro managers, the anxiety is less pervasive. Don Smith, partner and national coordinator for microcomputer consulting services at Price Waterhouse in Chicago, points out that he's "not concerned that IBM's version will make the Compaq obsolete." Price Waterhouse has already benefited from its 386s, which have hastened its software development efforts, he says.

At Samsonite Corp. in Denver, Colorado, where luggage is being designed on the Compaq 386, engineers applaud management's decision not to wait for IBM. The IBM PC ATs were not running Samsonite's AutoCAD—computer aided design—software fast enough, says information specialist Mick Macera. "If IBM were to introduce its unit tomorrow, and we couldn't live without it—which I doubt—all we'd be stuck with was a fast AT, and that's not so bad."

Roberts and other market watchers note that the 80386 isn't in the main-

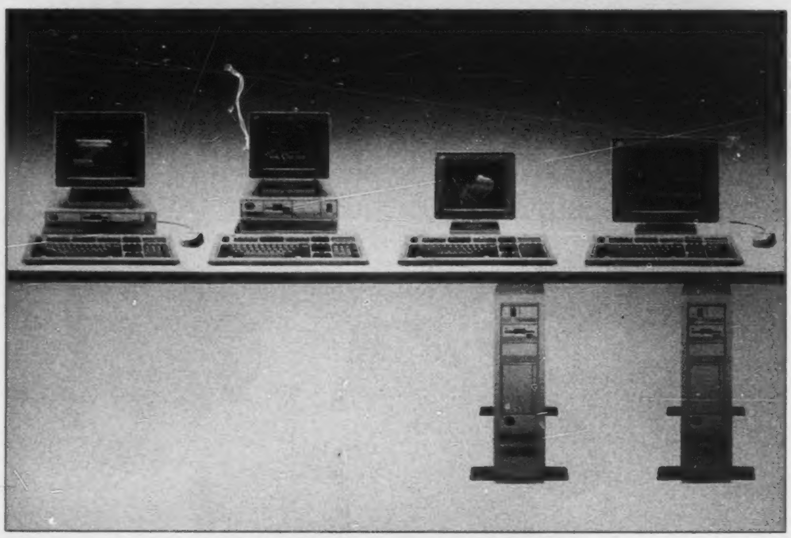
stream of the market yet, and may not be for quite some time. "You're looking at a definite difference in pricing structure between the 386 and the 286, and that certainly makes people wonder what they are going to get for the extra money."

McDonnell Douglas' Leemon is not so sure everyone will need the added capabilities of the 386, not at the present price. "We are going to take a wait-and-see attitude. We want to see what software is developed for the 386, and the price is going to have to drop. If increased speed is all it's going to offer, then it's too pricey."

Increased competition in the 386 market is one factor that could drive prices down over the long haul. In addition to IBM's pending offering, Compaq faces competition from other manufacturers including Kaypro, Zenith and PCs Limited.

Sleeping Giant Awakens

IBM's response to these challenges has been formidable. Early last month, the computer giant introduced a new, far more powerful line of computers designed to reaffirm its leadership in the PC market. Called the IBM Personal System/2, the new line features four new computers including two units, the Model 50 and 60, that are up to two times as fast as the PC AT and sell for between $3,595 and $6,295. These machines are based on the 80286 microprocessor and have extremely good color graphics.



IBM's new Personal System/2 computers may reestablish its dominance. Pictured are Models 30, 50, 60 and 80; between two and three times faster than their predecessors.

In addition, IBM also announced an 80386 based machine, the Model 80, which sells for between $6,995 and $10,995 and is up to 3 1/2 times faster than the PC AT. IBM has built a series of technological barriers into this machine and its other new models that will make it difficult for other U.S. and Asian manufacturers to clone this new generation.

The four lowest priced models are available immediately, but one 286 model won't be shipped until July, while the 386-based model 80 won't be delivered until the fourth quarter.

Too Much, Too Soon

The usefulness of these new-generation machines is still limited. No operating software system has yet been developed for 80386-based hardware, which means that it cannot be tied into a company's network for multi-use purposes. On top of that, very little application software is yet available. "Until there is a driving reason in terms of application, corporate users will not invest heavily in the 386," IDC's Goldberg points out. "What we are typically seeing is that instead of companies buying several hundred 386 computers, they are buying maybe 20 or 30, and the rest 286s."

Here, chip technology has outstripoped software development—a problem that is characteristic of a market that may be moving too fast for its own good.

IBM clones like this model distributed by Blue Chip function like PCs, but sell for much less

The advent of the 80386 means that every PC product on the market is potentially obsolete. And keeping up with the new market and trying to decide which machines to buy is very time-consuming. Corporate computer users have an enormous amount of money invested in PCs and cannot afford to commit to the wrong technology. "A common mistake that users make is to buy a new product before the market has developed," says Jeffrey Ehrlich, manager of product technology at G.E. in Bridgeport, Connecticut. "You can easily end up with a PC Edsel."

With so much at stake, the experts caution, companies must look at their computing needs and develop a sophisticated strategy for buying new equipment. Goldberg advises users to look at their applications and determine exactly what they're buying a machine to do, now and later, then they decide if they're looking for a "quick fix" or making a long-term decision.

And as new products become more complex—and expensive—the answers to these questions will help corporate users thread their way through the personal computer market. Ehrlich says a company should entrust the responsibility for purchasing to managers who understand the dynamics of the industry. Salomon Brother's Preston agrees, "It's difficult for end users to keep up with the leading edge . . .they'll want to develop their PC strategies with MIS specialists."

Software: Many Claims, But Real Improvements And Price Bargains, too

If developing a personal computer strategy is important, selecting the right software to complement that strategy is indispensable. As companies focus on how better to use existing equipment, end users must consider how their data fits into the overall corporate information system. Increasingly, software solutions are bridging this gap between individual and corporate-wide data, ensuring that information flows better between people who need it.

In such areas as spreadsheet programs, relational database management systems and expert systems, software vendors are leapfrogging each other, providing customers with a steady flow of improved products and competitive prices—and a spate of *very* confusing claims. Moreover, the microcomputer industry awaits the unveiling of a new disk operating system (DOS) from Microsoft Corp. of Redmond, Washington.

This high performance system, which is being developed jointly with IBM, is designed to tap the full promise of IBM's new series of Personal System /2 computers. Even by the most optimistic estimates, however, it won't be ready until mid-1988 at the earliest.

Clones

Less expensive knockoffs of well-known spreadsheets are making headway in the corporate market. When spreadsheet clones first hit the market over a year ago, they were considered inferior and had little impact on the market. "Now, though, the quality and performance of these programs have improved to the point that they are gaining acceptance among big corporate customers," says computer analyst Richard Sherlund of the New York investment banking firm Goldman, Sachs & Co.

The major selling point of software clones is price. The 1-2-3 program from Lotus Development Corp., Cambridge, Massachusetts, lists for $495 and is discounted at $325 for big sales (500 units and up). Such leading spreadsheet clones as VP Planner from Paperback Software International, Berkeley, California, and The Twin from Mosaic Software Inc., also Cambridge, list for around $100 and often sell at half-price discounts. Multiplan from Microsoft Corp., Redmond, Washington, lists for $195; SuperCalc4 from Computer Association International, San Jose, for $395.

Many spreadsheet clones also add features that traditional spreadsheets don't offer. For instance, VP Planner gives users five dimensional spreadsheets, making complex time-related comparisons possible, and Multiplan allows the user to work on a spreadsheet model while it recalculates itself, reducing the time spent waiting for solutions to different sets of business parameters. For users whose primary consideration is the speed of their spreadsheet program. The Smart Spreadsheet by Innovative Software Inc., Lenexa, Kansas, has no rival, outperforming even Lotus 1-2-3 by a significant margin.

Another important product in this market is Excel, Microsoft's exceedingly successful Apple Macintosh spreadsheet. "Excel's entrance into the IBM PC market sometime this year will mean that the Lotus standard might not be so safe any more," says Peter Burris, research analyst at IDC.

Burris and other market watchers also emphasize that as companies integrate their computing systems, spreadsheet products will have to link data from the mainframe to the PC, a chore formerly left to the user. "These little spreadsheet packages are islands in a corporate structure," Burris says. "Before a corporate user spends $500,000 on spreadsheet products, he should consider what role they will play in an unfolding corporate computing strategy."

Relational Database Programs

Relational database management programs already play a central role in corporate computing strategies. And vendors are busy developing the next generation of these programs that will blend a firm's computers, from mainframe to micros, into a single integrated network. The same software will run at the PC and

2-Year Comparison of Business And Professional PC User Market

Vendor	1986 Unit Shipments	1986 US Mkt Share	1985 Unit Shipments	1985 US Mkt Share
IBM	1,003,104	30.7	1,069,348	39.4
Apple	330,900	10.1	217,140	8.0
Tandy	253,050	7.7	154,350	5.7
Compaq	208,430	6.4	205,200	7.6
Leading Edge	160,000	4.9	33,600	1.2
AT&T	153,000	4.7	169,290	6.2
Zenith	112,800	3.5	82,080	3.0
Epson	84,300	2.6	1,000	0.0
HP	79,965	2.4	70,150	2.6
PC's Limited	70,000	2.1	2,500	0.1
Wang	67,925	2.1	71,250	2.6
Others	743,274	22.8	636,092	23.5
Total Business	3,266,768	100.0	2,712,000	100.0
Grand Total	6,431,251		5,689,000	

mainframe levels, allowing users to access information more easily from any computer within the corporate network.

As with Lotus 1-2-3 in the spreadsheet market, dBASE III Plus from Ashton-Tate, Torrance, California, is the standard by which all other relational database systems are measured. Lotus and Microsoft are working on products to rival dBASE, but for now, such products as R:BASE System V from Microrim, Inc., Paradox from Ansa Software, Redmond and Belmont, California, respectively, Smart Data Base Manager from Innovative Software, Lenexa, Kansas, and DataEase from Software Solutions Inc., Trumbull, Connecticut, lead the pack. Among their corporate customers are Atlantic Richfield, American Airlines, Litton Industries, Price Waterhouse and Piedmont Natural Gas.

PC compatible products like the Compaq shown have become increasingly visible at large corporations

End users generally cite ease of use as these products' main advantage, as well as the facility with which a user can program specific applications. Greg Salcedo, finance computer systems development manager at American Savings and Loan in Stockton, California, the nation's largest S&L, explains that Paradox reduced training costs because users were familiar with its Lotus-like menus. As a result, they could put Paradox to work immediately.

At the Houston headquarters of Coca Cola Foods, a subsidiary of Coca Cola Bottling, Inc., which uses R:BASE System V on a local area network servicing 65 offices nationwide, Cheryl Currid, manager of sales, systems, planning and information, says R:BASE is a highly interactive, user-friendly system, designed for the user who needs to customize his applications. "With R:BASE's application generator, a semi-literate user can write menu-driven applications without programming," she adds.

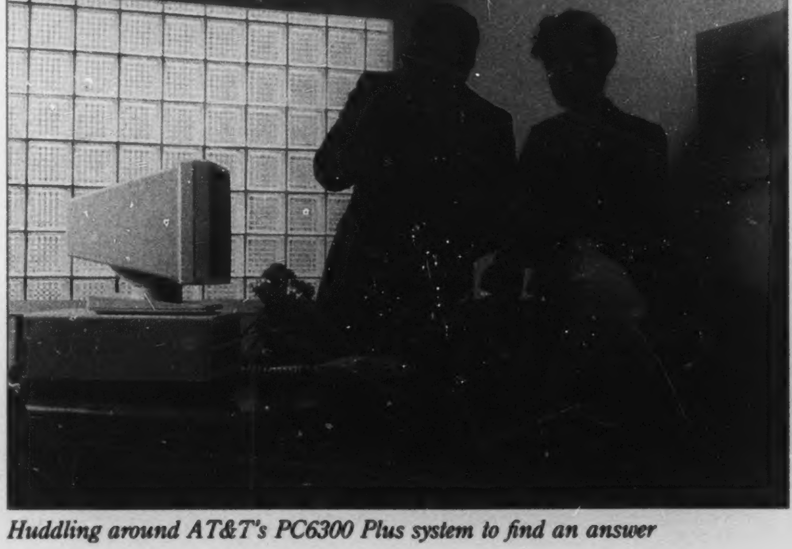
Many relational databases simpify the end user's job by using a form of artificial intelligence (AI), sometimes called natural language query systems, that eliminate the user's need to know even the rudiments of programming. Commonly known as non-procedural languages, they respond to an information request by retrieving data from corporate databases and delivering it, tailored to the specific needs of the user.

For instance, at Morris County Savings Bank in Morristown, N.J., senior executives work through Microrim's R:BASE CLOUT, which is used with the R:BASE series of databases. "It's a very powerful little program that permits our people to ask the computer questions in their own words," says Vincent N. Prehn, a senior vice president and the bank's MIS chief. "They typically use it to call up monthly variances in budget or specific items like all T&E over $100."

Despite the user-friendly interface of the current generation of relational products, experts caution that they don't permit direct PC linkage to a company's mainframe databases. They rely instead on such products as Lotus' The Application Connection (T-A-C) which allow them to transfer data files between mainframe and microcomputer databases. Burris notes that if users define their data with a highly structured product, such as one of these relational products, they may find it difficult one day to locate and use information that exists in the organization, but not on the mainframe.

The next generation of PC relational database products will make data sharing effortless. Forthcoming distributed relational products from Oracle Corp,. Cambridge; Relational Technology Inc., Alameda, California; and Information Builders, New York City, promise to connect all of a firm's computing architecture. "With these products, what works on the mainframe, will work on the mini and the micro...Data transfer will become totally transparent," notes Jim Hurd, technical director at National Software Testing Labs in Philadelphia. "Users will not have to work with outside products; the work will be done for them."

The major drawback to some of these new products, according to Hurd, is that they are designed with a computer professional in mind, not the casual executive user. Not yet, in any case. But distributed relational database products are only now hitting the market, and surprises are in store. "Distributed technology is quite simple to use at the PC level," says Kevin Gallagher, manager of public relations for RTI. "If the user is already familiar with products, he won't have to jump through hoops to access databases on minicomputers and the mainframe."



Huddling around AT&T's PC6300 Plus system to find an answer

Expert Systems: Applying Artificial Intelligence To Solve Problems

You can't tell from the picture, but a Palladian Software expert system based on AI procedures is aiding corporate decision making

Just as relational systems are making the end user's job easier, so, too, are expert systems. Expert systems use AI procedures, as do relational products, but they go a step further, offering reasoning and problem solving capabilities. Their goal is to imitate the way a human expert addresses a task, drawing similar conclusions. "Although an expert system will never replace human thinking," says Coca Cola Foods' Currid, "it'll get the user pointed in the right direction, and take over a good deal of his leg work."

Expert systems are becoming helpful financial tools, performing specific and often complicated tasks. For instance, Arthur Anderson & Co. and IntelliCorp, Mountain View, California, a front-runner in the expert systems field, have developed a system called the Financial Statement Analyzer (FSA), which scrutinizes tables and footnotes in financial statements. By looking at the financial reports of all the companies in a particular industry, says Harvey Schloss, vice president of finance at IntelliCorp, FSA can, for instance, shop around for likely takeover and merger situations.

Among the other financially oriented systems now on the market is Financial Adviser by Palladian Software, Cambridge. Designed to aid in the corporate decision making process, Financial Adviser evaluates the marketing strategy of new products: when to launch and how to position a new product against competitors. A number of expert system vendors such as Javelin Software Corp., Cambridge, and Smartsoftware Inc., Belmont, Massachusetts, offer "smart" business forecasting systems. Such blue-chip clients as 3-M, AT&T, Citibank, General Foods, Eastman Kodak and Morgan Guaranty Trust Co. are using Smartsoftware's, SmartForecasts II.

As companies devote more resources to office integration, the experts predict that they will depend more and more on AI-based expert systems and relational databases to help users handle information. "Today, executives are not getting lost in their PC databases," notes Burris. "But when they start moving beyond the computer that's perched on their desks, they'll need some form of AI-based expert systems with relational databases, severely limiting the use of expert systems to small, departmental applications. Companies had to invest time and money into customizing these bridges. New products expected from IntelliCorp, Teknowledge Inc., Palo Alto; Inference Corp., Los Angeles; and Carnegie Group, Pittsburgh, promise to alter this.

By the end of 1987, bridges will allow expert systems to access information more easily from corporate databases. As an example, KEEconnections, IntelliCorp's product, will support connections to relational databases from such vendors as Oracle, and RTI. With these advances, expert systems may become mainstream corporate tools. "In the next few years, you'll see expert systems having as significant an impact on corporate users as spreadsheeting had several years ago," predicts Morris County Bank's Vincent Prehn.

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Desktop Publishing: True Savings with Quality Printing Now Possible

One of the newest and most important developments in the PC field is the advent of desktop publishing which places the benefits of recent technological advancements right at corporate users' fingertips. By allowing a wide range of users to design, lay out and produce high-quality printed material at their own desks, desktop publishing is becoming an attractive alternative to expensive out-of-house publishing.

At the heart of the desktop publishing workstation are four major components: a PC AT with at least 512K of memory and extensive graphics capabilities; sophisticated page composition software that enables the user to combine text and graphics in a single layout file; page-description language software (PDL) that sends instructions to the printer; and a laser printer. (Users may also add a scanner to enter text and graphics into the system from outside sources.)

The four components can be combined into two distinct desktop publishing solutions: graphics-oriented Apple Macintosh and LaserWriter systems designed for desktop publishing applications, and non-graphics, IBM compatible systems that incorporate the attributes of desktop publishing by adding software, laser printer and other peripherals, such as a graphics card and color monitor.

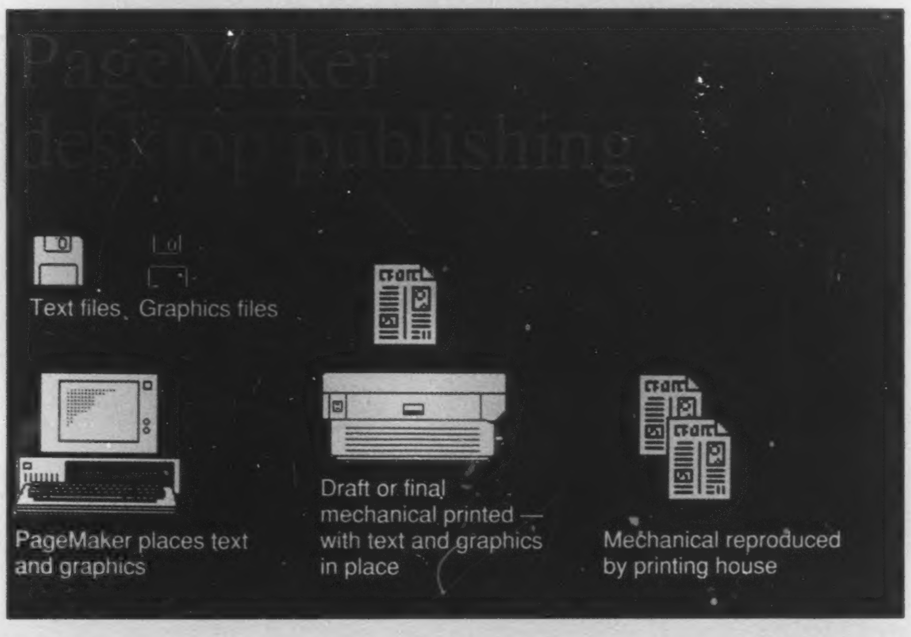
Many of these components are already seeing heavy use individually within the business community. For example, laser printers have been used to produce documents for years. But with advances in microcomputers, laser printers and software solutions, "potential corporate users have to think seriously about bringing the productivity benefits of desktop publishing to their companies," says Ajit Kapoor, director of Dataquest's Electronic Publishing Market Analysis group.

Corporate pioneers have already jumped out in front with this technology, installing in-house desktop publishing systems. Big users such as GTE Strategic Systems, a division of GTE's Government Systems Corp., have installed customized electronic publishing systems. "It's desktop publishing at its best," says Russ Hall, manager of communications services organization, "except that it's supported by about $300,000 of software [from Datalogics, Inc., Chicago] in the basement. The artistry and the discipline of the craft is all in the software." McDonnell Douglas Corp. and Boeing Aerospace Co. are discussing similar plans for 1988.

Many companies that do not wish to invest so heavily are buying desktop publishing workstations rather than developing their own integrated electronic publishing systems for substantially more money. For example, accounting firms such as Arthur Young, Price Waterhouse and Peat, Marwick, Mitchell & Co. are operating desktop publishing workstations, as well as John Hancock Mutual Life Insurance, Co., Hughes Aircraft, Arco Oil & Gas Co. and Knight Ridder Newspapers, Inc.

Big Business

Publishing is the second business of every organization. Millions of pages of information change hands every day and as much as 10% of a company's annual revenues are spent in publishing (brochures, annual reports and the like), according to David H. Goodstein, president of InterConsult, Inc. in Cambridge. "These invisible document factories are run with management and budgetary practices that would be unacceptable in a company's own business," he adds.


PageMaker
desktop publishing
Text files
Graphics files
PageMaker places text and graphics
Draft or final mechanical printed — with text and graphics in place
Mechanical reproduced by printing house

This flow chart from Aldus Corp. includes all the components for a typical desktop publishing system

Desktop publishing can bring considerable savings. "The page rate for typesetting is $110 to $150," says David Coleman, director of marketing communications at Arthur Young in New York. "You can do something on a desktop publishing system and laser printer—of inferior quality to professional typesetting, but acceptable for lower end publishing—for about $5 a page."

Benefits of desktop publishing systems include saving production time, gaining greater control over dozens of low-end typography projects, and decreasing out-of-pocket expenses for printing. Instead of sending manuals, proposals or even 10Ks to a typesetter, companies are preparing and editing them on PCs, and churning them out on laser printers, complete with stylized fonts and attractive layouts. Moreover, reports never leave the office, ensuring secrecy not possible before.

Arthur Young's Microcomputer Technolgoy Group, which is responsible for microcomputer support, prepares its own monthly newsletter and quarterly magazine at the desktop level, reducing the production loop of presentations. "We wanted to increase our productivity and have better control over our projects," says Pamela Davidson, a manger of the group. "There is a [conventional, in-house] printing facility, but I never use them. They're not fast enough."

One of the most vital applications for this type of publishing is the disclosure of financial information required by the SEC. "Financial departments in many companies had been at the mercy of corporate publishing timetables," notes Tim Bajarin, executive vice-president of market research firm Creative Strategies in Santa Clara. "We're hearing that they are starting to place desktop publishing workstations in financial departments." Peat, Marwick's San Francisco Report Department, for instance, uses the Macintosh for reporting financial statements.

In addition to internal savings, some companies have devised clever ways to turn their desktop publishing systems into profitable ventures. Knight-Ridder Newspapers, Inc., for example, installed Macintosh workstations at 30 of 33 newspapers, enabling its artists to generate graphics, maps, charts and line drawings and update them from an electronic library. On January 1, they started marketing their news and feature graphics, and now boast over 20 independent newspapers in their Knight-Ridder Graphics Network.

Apple's Success

To date, the success story in the desktop publishing world has been Apple Computers. Apple is the first company to sell a turnkey system supported by third party software, PageMaker from Aldus Corp., Seattle, and PostScript from Adobe Systems, Palo Alto. "Companies have the component parts, but putting them together is very difficult," says Aaron Goldberg, an analyst at IDC. "When you buy an Apple system, you hook it all together, and it does what you want it."

As more companies move into desktop publishing, executives are learning the technology

If Apple's desktop publishing efforts have one drawback, it's that the Apple capabilities aren't compatible with IBM. Dataquest's Kapoor notes, "A number of big companies have not bought the Macintosh in large quantities because it's not compatible with their existing MS-DOS equipment."

Apple, however, has introduced new products that will tie Apple to the MS-DOS world and allow it to make a run at

Even sophisticated systems require only modest desk space as Cordata's Intellipress product shows the IBM corporate world. During the first half of 1987, it introduced AppleTalk PC Card, which allows MS-DOS personal computers to access the LaserWriter, and Apple DCA Filter Software, which translates documents from MS-DOS word processing applications to and from MacWrite, Apple's word processing software.

With Apple's success, other hardware and software vendors are moving to tap the MS-DOS world, the fastest growing market for desktop publishing. The most bullish projections for the future of desktop publishing are from Dataquest's Kapoor, who predicts sales for software, hardware, laser printers and scanners will total over $4.8 billion in 1990—nearly $3.5 billion (or over 70% of the total) for MS-DOS-based sales alone. By comparison, in 1986, Macintosh-type products outsold IBM-type products, reaping over $250 million, or 80% of the industry's $306 million sales.

Several companies are in line to cash in on this boom. Hewlett-Packard, Palo Alto, which has the largest installed base of laser printers with over 200,000 LaserJets, recently announced an alliance with Aldus and Microsoft to market a complete desktop publishing solution for the PC market. The solution includes Aldus' PC PageMaker, Microsoft's Windows, HP's Vectra and LaserJet PLUS printer. Xerox Corp. is also marketing a desktop publishing workstation solution, while Cordata Technologies, Inc., Thousand Oaks, California, offers fully integrated PC-based desktop publishing systems. Market watchers expect to see an IBM desktop publishing system, but Big Blue is keeping mum.

Corporate users, equipped with a graphics-enhanced IBM-compatible PC and a laser printer, can now purchase inexpensive and easy-to-learn desktop publishing software solutions. While a full-blown Apple system runs for around $10,000, one of these packages can run for as little as $695 . . . PC PageMaker, for example. Today, there are over a dozen such packages. Along with PC PageMaker, the early leaders in MS-DOS software development are Ventura Publisher from Ventura Software, Morgan Hill, California, and Harvard Publisher from Software Publishing, Mountain View, California.

Bajarin and other market watchers say that Macintosh-type products guarantee a standard not yet established among the MS-DOS vendors. But they add that IBM-based users may want to protect their PC investments by purchasing MS-DOS software. An MS-DOS product by Ashton-Tate may change all that. "If the corporate executive is used to word processors, this Ashton-Tate product will be one that will help him get into desktop publishing overnight," says Bajarin.

Laser printers, the latest component of a desktop publishing workstation, have come a long way since Hewlett-Packard first introduced its moderately priced LaserJet over two years ago. Today, a tidal wave of vendors is offering new features and improved laser engines, at prices competitive with high-end daisywheels. For example, QMS Kiss from QMS Inc., Mobile, is the first laser printer to break the $2,000 barrier, and a passel of laser printers can be found for under $3,000, including models from Qume Corp., San Jose, and Blazer Industries, Los Angeles. And improved laser printers—with higher quality output and increased speed—can be expected soon.

Go Slowly

With so many new products about to hit the market, a few end-users advise adopting a wait-and-see attitude about desktop publishing. "I would go slowly and don't buy too much until you know exactly what your needs are and what the software is that's going to evolve out there to meet those needs," says Price Waterhouse's Don Smith.

Desktop publishing promises to play a significant role in corporate computing strategies. But experienced users offer a note of caution about this emerging technology: before installing large numbers of workstations, implement a system of control and standards within the organization. As with PCs when they first hit the business community, a plethora of desktop publishing systems can create management problems for a firm. "If you give people a PC and a laser printer, they're going to climb up the nearest tree, and you'll never see them again," says GTE's Hall. "With a decentralized desktop publishing system, you have to hire a manager to maintain control over it."

Arthur Young's Coleman agrees: "The scenario [of a decentralized desktop publishing system] is a potential nightmare." Without a strong support structure within an organization, Coleman adds, desktop publishing can be like "a kid playing chopsticks compared to Arthur Rubinstein on a Steinway."

Dollar Value of U.S. PC Shipments of Major Vendors ($ millions)

Vendor	1986 Unit Shipments	1986 US Mkt Share	1985 Unit Shipments	1985 US Mkt Share
IBM	3,618	35.8	3,555	40.4
Compaq	933	9.3	741	8.4
Apple	606	6.0	387	4.4
Zenith	545	5.4	250	2.8
AT&T	349	3.5	484	5.5
HP	345	3.4	312	3.5
Leading Edge	280	2.8	66	0.8
Wang	271	2.7	280	3.2
Tandy	225	2.2	141	1.6
Epson	150	1.6	2	0.0
PC's Limited	78	0.8	4	0.0
Others	2,794	27.7	2,572	29.2
Total Business	10,096	100.0	8,789	100.0
Grand Total	14,986		13,322	

Credits: Report by Leon McCartney, who writes the Managing Technology column for Business Month, and Van Mataxas, a Washington, D.C.-based freelance writer. Design: Kellner & Osburn, Inc.

While Warner is not undiscovered, "given the ebullient market, this is the kind of stock that can go far," he says.

The preferreds carry a 17.5% premium and a 5.8% yield, versus the 1.3% yield on Warner common. If CD earnings begin to take off, Friedman expects the convertible to climb 50%. The common recently traded at 31.

One reasonably priced new issue is Chicago-based Inland Steel Co., which just launched a joint venture for a rolling mill with Nippon Steel Corp. The steel industry has been "a terrible investment for the last twenty years," Friedman says. But he sees a real change in the fundamentals: a lower dollar, cost cutting and automation. "My guess is that the steel industry will begin to pick up market share and earn higher profits," he says.

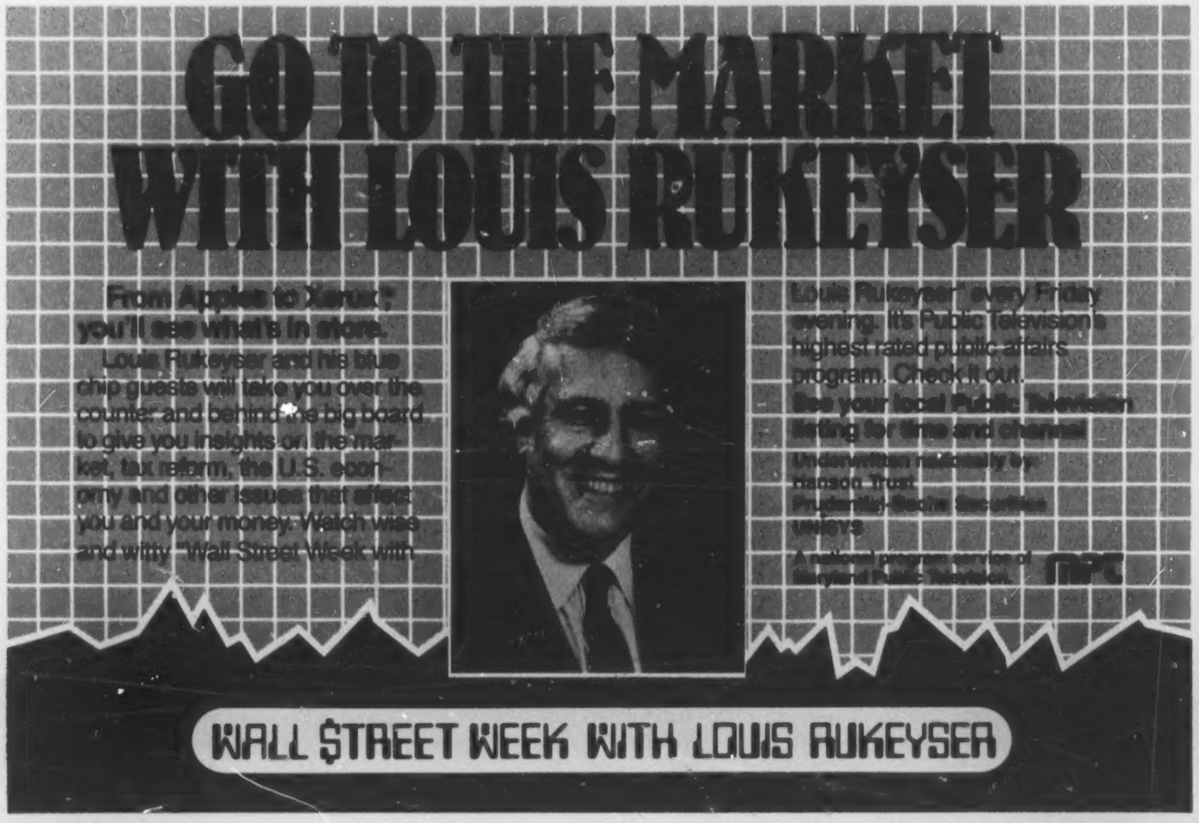
As one of the better managed steel companies, Inland stands to gain as much as 10%-to-50%. The convertible has a 6% yield, versus no yield on the stock. Friedman would be a buyer in the low 50s. —L.N.

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(3/31/87) **Recent Price or Yield**	**Value of $10,000 if invested: Month Earlier**	**Year Earlier**
Common (Index fund, capital gains and dividends reinvested)	$ 29.23/share	$10,289	$12,552
per cent change		+2.9%	+25.5%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$133.31	$ 9,640	$9,510
ACCUMULATED INCOME		$ 71	$ 838
TOTAL		$ 9,711	$10,348
per cent change		−2.9%	+3.5%
Money Market Fund	5.39%	$10,046	$10,583
per cent change		+0.6%	+5.8%
Gold (Krugerrands)	$425.00/oz.	$ 411.30	$ 336.10
per cent change		+3.3%	+26.5%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$116,900	$115,700	$105,600
per cent change		+1.0%	+10.7%
New House	$127,100	$135,600	$108,200
per cent change		−6.3%	+17.5%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes, Inc.; Federal Home Loan Bank Board.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BUSINESS MONTH

Feature Departments

WASHINGTON

Jim Wright's Mission to Moscow 20
After meeting with Gorbachev, the Speaker and the House delegation came back believing the Russians want an arms deal. This conviction is already affecting the defense budget. Business Month's *report from Moscow.*

ECONOMY

New Linchpin For the Dollar? 24
Top policymakers are disillusioned with floating exchange rates. So the Fed is weighing an old idea: linking the dollar to a basket of commodities.

EXECUTIVE PROFILE

The Defense Industry's Mr. Clean 26
A star among the new breed of Pentagon suppliers, Martin Marietta's Norman Augustine is a consummate insider who is also a witty, self-effacing Eagle Scout.

- **Augustine's Law of Surrealistic Planning** 30

HUMAN RESOURCES

The Lessons of NUMMI 34
The GM-Toyota West Coast venture is efficiently churning out high-quality cars. But the workers are balking at the grueling pace set by their Japanese taskmasters.

INTERNATIONAL

Thatcher's Midas Touch 40
Toughing it out against the odds, she has wrought an economic and social revolution in Britain.

COMPANIES

Anatomy of a Japanese Takeover 46
Flush with cash, the Japanese are on a U.S. buying binge. The Sumitomo-Dunlop deal leaves both sides smiling.

- **New Japanese Strategy: Buy U.S. Companies** 48

June 1987, Vol. 129, No. 6

50

MANAGEMENT

PepsiCo's Fast Track 50
The company's pressure-cooker development program turns out aggressive, motivated managers. The rewards are great for those who stay the course.

INDUSTRIES

The Peacock Struts His Stuff 54
Men now spend almost as much as women on clothes. Jeans and T-shirts are out. Fashionable, colorful sportwear is in.

Letters 4
Fighting poison pills.

Managers in The News 7
Alcoa's man from Uncle Sam.

Managing Information 71
Corporate information centers disappoint.

Personal Finance 73
On Wall Street: Playing the Inflationary Bounce

Pitfalls in Retirement Packages 75

Investment Update 76

The Business Month

WASHINGTON
- *Chiles' budget alchemy* 9
- *FDA's skin cream crackdown*
- *Baker's lost luster*

ECONOMY
- *Volcker's recession risk* 10
- *Trade's real villain*

COMPANIES
- *Ford's winning streak* 10
- *Reed returns to Santa Fe*
- *Boeing aids Allegis*
- *Merger roundup*

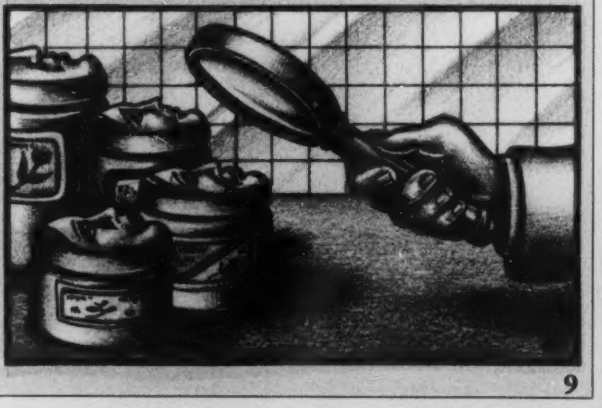
MONEY & MARKETS
- *Mellon seeking outside CEO?* 11
- *Brokers rein in employees*
- *Tokyo bull runs scared*

MANAGEMENT
- *States challenge takeovers* 12
- *GM's stock bonus switch*
- *Supreme Court rocks Rotary*

ENVIRONMENT
- *California's Prop 65 confounds marketers* 15

INTERNATIONAL
- *Brazil ready to deal on debt* 15

INDUSTRIES
- *European airlines unite* 16
- *Garment makers buy domestic*
- *New idea for utility rates*



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COVER PHOTOGRAPH BY BRITAIN HILL

forward averaging instead of rolling over the $165,040 he had coming to him into an IRA, because he didn't want the money locked up until he was 59½. The IRS whacked him for an extra $16,504.

☐ Choosing between ten-year and five-year averaging. If you must get your hands on the money, ten-year averaging might be the best choice. But have your accountant do the arithmetic to find out.

Under the new tax law, if you were fifty or older on January 1, 1986 you can still use ten-year averaging. You are taxed at your 1986 tax rate, but that isn't so bad because it is assumed that you received the money in ten annual installments and had no other income. Otherwise, you can choose five-year averaging, which pushes you into a higher bracket but at this year's lower rates. You can see why, even under tax reform, it takes a computer to ferret out the best deal.

☐ Miscalculating the sixty-day rollover period for IRAs. Don't fall into the same trap a recently retired oil executive did who took lump sums from both his profit-sharing and pension plans and decided to roll them over. The company paid the first sum last October and the second in November. The executive knew the rollover had to be completed within sixty days, but he thought he could start counting in November.

He was wrong. The IRS insisted that each distribution was a separate transaction. Upshot: The October payment of $150,000 was taxable as ordinary income—at the about-to-expire 50% maximum rate. That one cost the executive $75,000.

☐ Inadequate retirement health coverage. Medicare will pick up only a fraction of your bills. See what kind of coverage your company provides retirees and their spouses. If it doesn't fill the gap that Medicare leaves, purchase a supplementary policy. But do it before you retire, because many insurance companies give a better break on the premium if you are employed. You can slash your premium by 50% if you avoid first-dollar coverage and take a big deductible, advises Steven B. Enright, director of financial planning for Seidman Financial Services.

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(4/31/87) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$28.93/share	$ 9,897	$12,593
per cent change		–1.0%	+25.9%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$128.31	$ 9,625	$ 9,311
ACCUMULATED INCOME		$ 73	$ 853
TOTAL		$ 9,698	$10,164
per cent change		–3.0%	+1.6%
Money Market Fund	5.49%	$10,045	$10,573
per cent change		+.5%	+5.7%
Gold (Krugerrands)	$461/oz.	$10,847	$13,716
per cent change		+8.5%	+37.2%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$115,900	$118,400	$104,200
per cent change		–2.1%	+11.2%
New House	$134,200	$130,200	$114,200
per cent change		+3.1%	+17.5%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes, Inc.; Federal Home Loan Bank Board.

☐ Pension pay-out options. If you are married, be careful how you choose your pension option to give your spouse a survivor benefit.

If your spouse is ten or fifteen years younger than you, advises financial planner Harold Chadwick, opt for a straight life annuity rather than the more common joint-and-survivor type. Because of the age gap, your pension will be sharply reduced to provide for your spouse in case you die. If you are an executive with a six-figure salary and have a wife who is thirteen years your junior, a joint-and-survivor annuity could cut your pension as much as $40,000.

To assure your wife's financial future, Chadwick advises, take out extra life insurance on yourself, payable to her. The premium should be no more than half of the decrease in your pension. But remember, this strategy is cost-effective only when your wife is at least five years younger than you are. Otherwise, stick with the joint-and-survivor annuity.

☐ Retiring too early. Starting next year, the law says your company must give you pension credits for the years between age 65 and 70 if you decide to stay on. While retirement may be more attractive, you should be aware that your pension could double if you continue to work for those five years. A few extra years could radically raise your retirement standard of living. "Whatever the ingredients of your retirement package," sums up Norman Clausen, a partner at consultants Kwasha Lipton, "your pension is still the most important."

The multitude of decisions that you must make is annoying, but this is no time to be careless. The package you take into retirement will affect your living standard for the rest of your life, warns William J. Goldberg, national director of financial planning for KPMG Peat Marwick, "and there is really no way to recover from mistakes."

—JOHN C. PERHAM

EXCLUSIVE: THE 200 LEADERS IN CASH FLOW/THE MBO SYSTEM THAT DR

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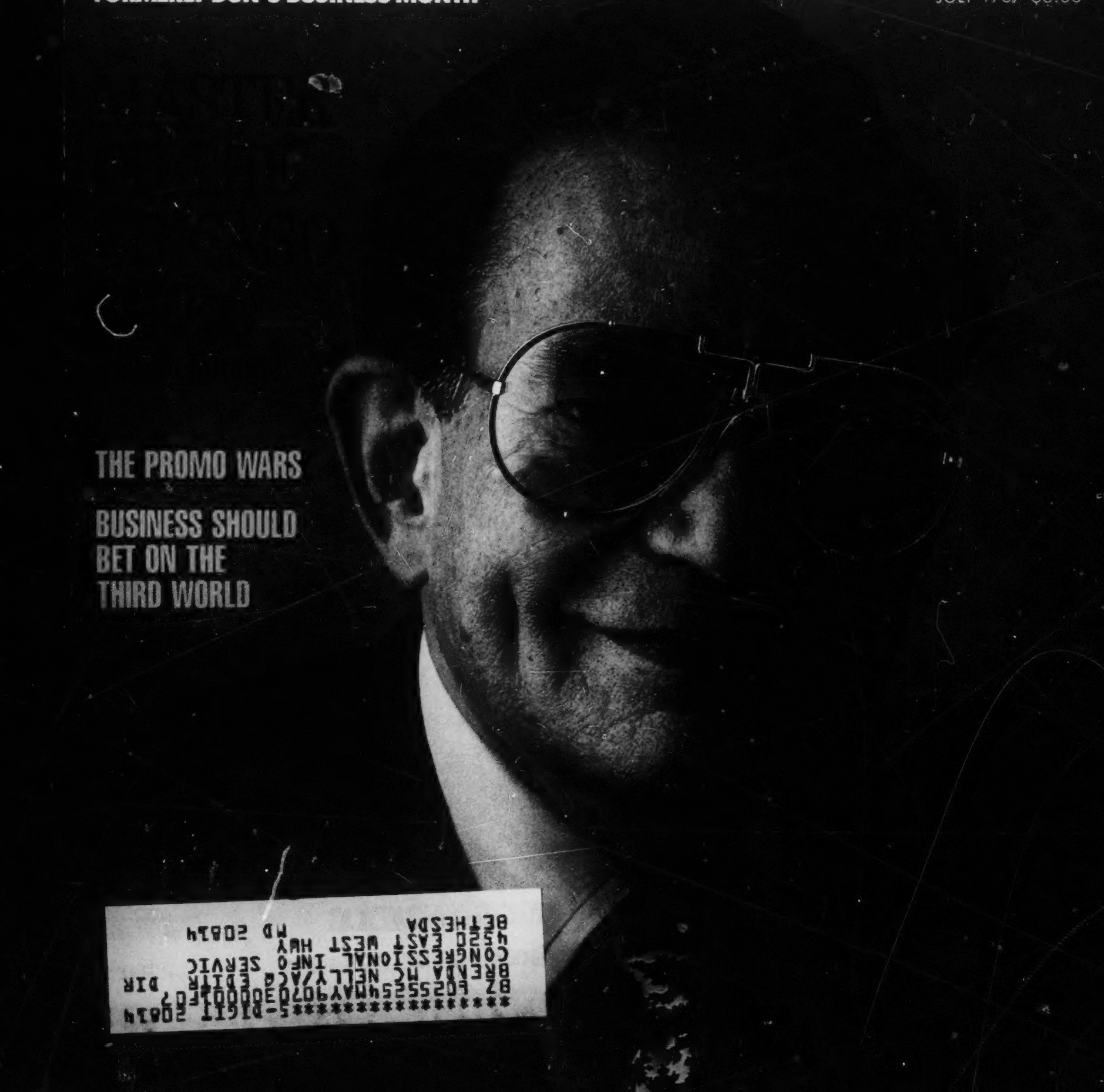

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BUSINESS MONTH

Feature Departments

ECONOMY

Business Should Bet On The Third World 24
Now that the banks have bitten the bullet, says a world-renowned economist, the developing world should see a new surge of growth.

- **Ten Countries That Have Turned Around** 26

GOODYEAR
47

COMPENSATION

Stock Incentive Backlash 28
Stock appreciation rights were a favorite executive perk until the bull market bit. Now companies are looking for ways to stem the earnings drain.

COMPANIES

The Goal System That Drives Cypress 30
Management by objectives is virtually a science at this young semiconductor firm and a major force behind its impressive showing in a tough market.

EXECUTIVE PROFILE

Master of The Chicago Merc 34
Legendary trader Leo Melamed invented financial futures and changed the world of international finance forever.

- **A Dream Come True: Trading the S&P 500** 36

MARKETING

The Promo Wars 44
Sales promotions are the hottest marketing tool around these days, and the freebies keep getting bigger. Is brand loyalty being swept away?

MANAGEMENT

Sir James Versus Goodyear 47
A blow-by-blow account of the bitter takeover battle. Jimmy Goldsmith lost, but $93 million isn't a bad consolation prize.

- **The Parable of The Good Predator** 47

SPECIAL REPORT

Rounding Up The Cash Cows 50
Cash flow can be a good tip-off to market bargains. Watch the hype, though.

- **The Top 200 In Cash Flow** 52

July 1987, Vol. 130, No. 1

EMPLOYEE BENEFITS

Coming Benefit: Long-Term Care 60
Many people believe Medicare pays for nursing home care. It doesn't. However, help is on the way.

MONEY & MARKETS

Gold Fever 62
The gold bugs are on the rampage again. Actually, experts say, the price of the metal is going nowhere.

Managers in The News 6
Upjohn breaks the family tie

Managing Information 71
Taking the worry out of computer conversions

Personal Finance 73
On Wall Street: Super bull Martin Sass

What's wrong with tax-break life insurance 74

Investment Update 76

The Business Month

WASHINGTON

- *Baker's hard line* 11
- *Cracks in Democratic unity*

ECONOMY

- *Is Greenspan too political?* 11
- *Futility at the summit*
- *Slackening growth*

INDUSTRIES

- *Pulling Cat's whiskers* 12
- *Steel's agenda for the Democrats*

COMPANIES

- *The race for CEO at General Motors* 13
- *P&G's no-cal fat substitute*
- *Allegis board boots Ferris*
- *Merger roundup*

MONEY & MARKETS

- *Banks follow Citicorp's lead* 16
- *Japan opens door to U.S. banks*

MANAGEMENT

- *Supreme Court upholds mandatory severance* 17
- *Business rebuffs Leon Sullivan*
- *Big winners in acquisitions game*

INTERNATIONAL

- *Nakasone's surprise stimulus package* 20

ADVERTISING

- *McCall's negotiates ad rates* 20
- *Court cracks down on comparison ads*
- *Big advertisers boycott Florida*

13

TECHNOLOGY

- *Revolutionary super-hot oven* 23

MARKETING

- *Appliance warranty war* 23
- *Odd-penny pricing hurts quality image*

COVER PHOTOGRAPH BY MARK HAUSER

Business Should Bet On The Third World

That's the view of world-renowned expert Albert O. Hirschman, who maintains that debt write-offs will ignite a new round of economic growth.

by Marc Levinson

For half a decade, dictators, debts and declining economies have caused American business to shun the once promising Third World. But the tide may be turning. Albert O. Hirschman, one of the nation's top experts on Third World economies, contends that the recent write-offs of bank debts could ignite sustained expansion in the developing world and create new markets for American exports and a slew of investment opportunities. "If we get the debt behind us, we could look forward to another period of fairly good growth," Hirschman says. "It's already picking up."

A world-renowned authority on Latin America, few economists are more qualified than Hirschman, 72, to assess the outlook for the Third World. A former professor at Yale, Columbia and Harvard and a longtime consultant to the Colombian government, he gained prominence in the 1960s by insisting that each Third World nation has unique problems that cannot be solved by rigid plans imposed by the World Bank or the International Monetary Fund. Now at the famed Institute for Advanced Study in Princeton, where scholars receive stipends just to think and write, Hirschman is optimistic about the outlook for the developing countries. "The prospect of economic growth under democratic governments should make multinational corporations sit up and take notice," he says.

Most U.S. corporations, particularly manufacturers, haven't ventured into developing countries since the international debt crisis erupted in 1982. U.S. manufacturing investment in Latin America, for example, was smaller at the end of 1985, the most recent year for which figures are available, than it was at the end of 1981. Direct U.S. investment in sub-Saharan Africa fell 25% over the same period. Even on the fast-growing Pacific rim, the multinationals' interest in such erstwhile hot economies as Malaysia and the Philippines has been simmering down.

But now, Hirschman asserts, fundamental economic changes have set the stage for a significant turnaround. These countries are now more highly developed economically. Typically, they have only one-third of their labor force in agriculture, compared with two-thirds twenty years ago. The massive move to the cities has produced a more sophisticated, healthier and more literate labor force.

Ironically, Hirschman says, the big reason for optimism is the likelihood that the Third World will default on its debt to the banks. Either write-offs or defaults will give the developing world the foreign exchange to buy imports, which in turn will stimulate their

Hirschman: Argentina, Colombia and India are attractive right now

economies. Even Citicorp Chairman John Reed suggests that both banks and debtor nations would be better off if the banks could swap debt for equity in local companies. This would give them a stake in a growing economy instead of a claim on a stagnant one.

At the same time, virulent nationalism has abated. As a result, investment proposals are likely to get a much warmer reception than was the norm a decade ago. "The developing countries are less ideological than they used to be," maintains Hirschman. "Things are likely to be looked at pragmatically in most countries."

The Third World has also achieved greater political stability, says Hirschman. The extreme authoritarian regimes of the recent past have made many people value basic liberties and democratic government. "People who have gone through these [dictatorial] regimes are convinced that democracy is worthwhile in itself," he says.

But, he cautions, companies must approach foreign investment differently than in the past. Most of these nations now have strong unions and are increasingly concerned about pollution, monopolistic behavior and consumer protection. Thus, the Third World can no longer be viewed as a place to avoid high labor costs or regulation. "The reasons for locating abroad should be that the economy is vigorous or that it's a good place from which to export, rather than the lack of antitrust or labor laws," Hirschman says.

TEN COUNTRIES THAT HAVE TURNED AROUND

Five years ago, business stopped investing in the debt-ridden Third World countries as their economies collapsed in the wake of the world-wide recession. Now, the developing nations are taking off again.

COUNTRY	1982 GROWTH RATE	1987 GROWTH RATE (PROJ.)
Argentina	-4.8%	4%
Brazil	.9%	3%
Colombia	.9%	4%
Ivory Coast	3%	4.5%
Kenya	1.8%	4%
Mexico	-.6%	3%
Peru	.9%	5%
South Korea	5.5%	8%
Taiwan	3.8%	7.5%
Venezuela	.7%	2%

Source: International Monetary Fund, The Conference Board

In choosing a country to invest in, he says, do not follow the crowd. "One of the problems of businessmen is that they all go into one country, because that country looks 'good' at a particular point. But the climate tends to change if everybody comes in. You get a lot of antiforeign feeling."

It might be far better to invest in a country whose reputation is "bad," since reputations tend to persist long after conditions have changed, Hirschman maintains. This is certainly the case right now with long unpopular countries like Argentina, India and Colombia. Argentina's new democratic government has built an increasingly efficient agricultural sector; India has created a vibrant consumer economy; while Colombia has experienced several years of steady economic growth.

Sitting in his enormous book-lined office, overlooking a pond and the famous Institute Woods in which Albert Einstein once strolled, the German-born scholar suggests that one attitude hasn't changed: concern about foreign domination. Here, too, companies must adopt new strategies. He advises multinationals as they move into new product lines to systematically spin off older businesses to locally owned firms. If a company transfers technical skills to local entrepreneurs, it will be seen as a positive factor in the country's development. "Otherwise, a foreign company exposes itself to hostility from occupying a key position in the economy," Hirschman warns. "A company should be a moving target, not a sitting one."

American companies will do best in developing countries where there is a strong domestically owned private sector, Hirschman asserts. Then local business leaders, instead of foreigners, can raise their voices against government mismanagement and corruption. Brazilian business, for example, was a major influence in bringing back civilian government after years of economic mismanagement by a military junta. If there are to be indigenous business voices to speak out against government incompetence, "foreign companies shouldn't dominate too much of a nation's economy," argues Hirschman.

If he is right, business would miss a major opportunity if it is too scarred by past experience to take another gamble on the Third World. ■

CASH FLOW

THE TOP 200

Cash flow of the 200 big nonfinancial companies in Business Month's annual survey grew 3% in 1986, down sharply from the ebullient 5% rate of the year before. Still, it exceeded the economy's 2.5% growth.

Tax reform and the loss of the investment tax credit was one reason for the slowing of cash-flow growth. Another was that corporate restructuring, which helped produce big increases for some companies in 1985, had less impact last year.

But the restructurings and improved business conditions also helped more and more companies get healthy. Last year only 67 of the 200 had negative discretionary cash flow, compared with 98 the year before and 82 in 1984. Discretionary cash flow is the amount remaining after dividend payouts, capital spending and debt due in one year.

International Business Machines, with $11.8 billion in cash flow, took over the top spot in the rankings from Exxon, which fell to third. With $4.1 billion in discretionary cash flow, IBM also led in this important category. Compare the leaders' numbers year to year, and it's easy to see why. IBM's 1986 gross cash flow was up by more than $2 billion, while Exxon's fell $40 million.

In 1985 General Motors was second in the overall rankings and its rival Ford Motor Co., sixth; this year, Ford ranks second and GM fifth. American Telephone & Telegraph climbed one notch into fourth place.

Not only Exxon but other oil companies lost ground. Chevron went from fourth to sixth. Amoco, displaced from seventh by BellSouth, fell to nineteenth; and Atlantic Richfield plummeted from ninth to fortieth. Texaco remained in eighth place and Mobil in tenth—just behind GTE, which, like BellSouth, made the top ten for the first time.

The 1986 list includes some of the year's most popular stocks in cash-loaded industries such as food, consumer products, drugs and publishing. The raiders went after several cash-rich companies, including Lucky Stores, Burlington, Goodyear and Allegis. Others companies, such as FMC Corp., used their cash flow for debt-laden recapitalizations to defend themselves against potential raids.

Business Month ranks the companies according to the dollar value of gross cash flow generated from operations in 1986. The tables also show the per cent change from the year before, net income, discretionary cash flow compared to the previous year's, return on equity, the debt-equity ratio, total revenues and cash flow as a percentage of revenues. Because cash-flow analysis is an increasingly popular tool on Wall Street *(page 50)*, a new key yardstick has been added: the ratio of market value to cash flow.

—L.N.

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES	MARKET VALUE/ CASH FLOW RATIO
	$Millions '86	% change vs. '85	$Millions '86	% change vs. '85	$Millions '86	$Millions '85	%	%	$Millions	%	
1. **International Business Machines**	11,830	22.3	4,789	–26.9	4122	71	13.9	.16	51,250	23.1	6.2
2. **Ford Motor**	7,624	41.9	3,285	30.6	3363	540	22.1	.23	62,716	12.2	1.9
3. **Exxon**	7,061	–40.1	5,360	10.1	–1,302	–54	16.7	.25	69,888	10.1	7.1
4. **American Telephone & Telegraph †**	6,785	18.9	314	–79.8	490	–522	1.7	.56	53,680	12.6	4.0
5. **General Motors**	5,842	–47.1	2,945	–26.4	–7,979	–494	9.6	.40	102,813	5.7	3.6
6. **Chevron**	4,489	–25.2	715	–53.8	880	1,130	4.6	.54	24,351	18.4	3.5
7. **BellSouth**	4,200	14.6	1,589	12.1	–179	122	14.1	.60	11,444	36.7	4.4
8. **Texaco**	4,121	–10.7	725	–41.2	1,138	1,470	5.3	.66	31,613	13.0	2.1
9. **GTE**	3,962	7.0	1,184	NM	–334	–822	15.0	1.20	15,112	26.2	3.2
10. **Mobil**	3,873	–4.9	1,407	35.3	–69	128	9.2	.61	44,866	8.6	4.2
11. **Du Pont (E.I.)**	3,857	–5.6	1,538	37.6	292	198	11.6	.37	27,148	14.2	5.2
12. **Bell Atlantic**	3,310	16.5	1,167	6.8	312	26	14.0	.73	9,921	33.4	4.1
13. **Pacific Telesis**	3,268	30.5	1,079	16.2	332	–428	13.9	.74	8,977	36.4	3.5
14. **American Information Tech.**	3,227	8.3	1,138	5.6	276	268	15.0	.62	9,362	34.5	3.9
15. **NYNEX**	3,123	12.9	1,215	11.0	16	31	14.0	.62	11,342	27.5	4.2
16. **General Electric**	3,011	16.2	2,492	6.7	–164	–566	16.5	.41	35,211	8.6	13.0
17. **RJR Nabisco †**	3,079	101.6	1,080	7.9	1,380	–342	18.4	1.03	15,978	19.3	4.0
18. **Chrysler**	2,836	7.0	1,404	–14.2	497	957	26.3	.47	22,586	12.6	1.9
19. **Amoco**	2,794	–41.9	747	–61.8	–608	–181	6.6	.33	18,281	15.3	6.0
20. **Southwestern Bell**	2,693	5.4	1,023	2.7	102	–164	13.1	.77	7,902	34.1	4.2
21. **US West**	2671	12.5	924	–0.1	188	–193	12.7	.71	8,308	32.1	3.8
22. **Philip Morris**	2,336	122.9	1,478	17.8	477	–136	26.1	1.22	20,681	11.3	7.3
23. **ITT**	1,980	44.1	528	84.3	1,273	404	7.7	.41	7,596	26.1	3.8
24. **Boeing**	1,905	–26.5	665	17.5	906	1,870	13.8	.06	16,341	11.7	4.2
25. **Standard Oil**	1,872	–32.7	–311	NM	–731	–143	–4.4	.53	9,219	20.3	6.2
26. **USX**	1,843	5.4	–1,593	NM	248	1	–35.6	1.81	14,000	13.2	3.0
27. **PepsiCo**	1,795	190.2	458	9.0	571	–447	22.3	1.39	9,291	19.3	3.8
28. **Xerox**	1,678	3.4	488	28.3	236	262	9.4	.40	9,355	17.9	3.5
29. **Union Pacific**	1,654	22.3	–414	NM	CF	–14.2	–13.1	.81	6,574	25.2	4.0
30. **Unocal**	1,598	–0.8	176	–45.9	511	–291	10.5	3.17	7,482	21.4	1.9
31. **Dow Chemical**	1,564	119.1	741	NM	136	–667	14.3	.71	11,113	14.1	7.2
32. **Minnesota Mining & Mfg.**	1,515	24.5	779	17.3	387	–114	17.5	.19	8,602	17.6	8.8
33. **American Home Products**	1,456	77.2	779	8.6	786	201	32.7	.02	4,927	29.6	7.8
34. **Union Carbide**	1,451	59.3	130	NM	–490	CF	12.9	3.50	6,343	22.9	2.0
35. **Digital Equipment**[4]	1,347	109.0	617	38.2	781	71	11.0	.06	7,590	17.7	10.0
36. **Eastman Kodak**	1,328	27.7	374	12.7	CF	CF	5.9	.32	11,550	11.5	11.7
37. **Rockwell International**[7]	1,322	45.0	611	2.7	518	125	19.3	.23	12,296	10.8	4.9
38. **Burlington Northern**	1,308	–13.4	–529	NM	318	65	–15.8	1.04	6,941	18.9	3.0
39. **Johnson & Johnson**	1,304	32.9	330	–46.3	565	361	11.7	.44	7,003	18.6	8.7
40. **Atlantic Richfield**	1,303	–70.9	615	84.7	–2,336	–143	11.7	1.66	14,487	9.0	8.2
41. **General Dynamics**	1,285	117.1	–63	NM	814	132	–5.0	.34	8,892	14.5	2.3
42. **Procter & Gamble**[4]	1,255	54.4	709	11.7	–285	–924	12.3	.54	15,439	8.1	10.2
43. **Santa Fe Southern Pacific**	1,242	–0.5	–269	NM	–181	–153	–5.3	.39	5,631	22.1	3.7
44. **Phillips Petroleum**	1,242	–33.6	234	–60.7	197	175	12.0	2.98	9,786	12.7	2.2
45. **Westinghouse Electric**	1,218	72.6	671	10.8	543	–83	22.4	.37	10,731	11.4	6.5
46. **United Parcel Service**	1,182	19.0	669	17.9	184	–375	27.1	.05	8,620	13.7	NA
47. **Tenneco**	1,181	–30.2	139	–67.8	–434	–661	1.7	1.41	14,529	8.1	4.8
48. **Monsanto**	1,153	45.6	433	NM	409	–164	11.5	.53	6,879	16.8	3.0
49. **Unisys**	1,108	84.0	–43	NM	390	9	–3.1	.72	7,432	14.9	3.3
50. **General Mills**[2]	1,069	726.4	184	59.0	663	–241	26.9	.69	4,587	23.3	3.6

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES	MARKET VALUE/ CASH FLOW RATIO
	$Millions '86	% change vs. '85	$Millions '86	% change vs. '85	$Millions '86	$Millions '85	%	%	$Millions	%	
51. CSX †	**1,014**	19.4	**418**	NM	**–179**	**–651**	8.6	.74	6,345	16.0	**4.4**
52. Hewlett-Packard[8]	**1,014**	13.8	**516**	5.5	**403**	**150**	11.8	.08	7,102	14.3	**10.6**
53. Kraft	**1,011**	37.4	**390**	–16.3	**540**	**226**	21.7	.54	8,742	11.6	**6.3**
54. Merck	**1,000**	4.7	**676**	25.2	**509**	**481**	26.3	.21	4,129	24.2	**16.9**
55. Coca-Cola	**973**	–7.1	**934**	37.9	**–129**	**–114**	26.6	.49	8,669	11.2	**14.9**
56. Texas Air	**929**	302.0	**42**	–13.1	**–40**	**13**	2.3	4.17	4,407	21.1	**1.3**
57. Anheuser-Busch	**914**	–0.8	**518**	16.8	**–35**	**175**	22.4	.46	7,677	11.9	**7.7**
58. Lilly (Eli)	**908**	57.6	**558**	7.8	**355**	**122**	20.4	.23	3,720	24.4	**11.4**
59. Southland	**905**	196.6	**200**	–5.7	**129**	**–230**	12.3	.53	8,187	11.1	**2.5**
60. McDonald's	**878**	5.1	**480**	10.8	**–180**	**–102**	19.5	.93	4,144	21.2	**8.8**
61. United Telecommunications	**860**	0.0	**187**	801.2	**–319**	**–433**	10.6	1.61	2,857	30.1	**2.9**
62. Aluminum Co. of America	**856**	10.5	**264**	NM	**139**	**87**	7.2	.37	4,667	18.3	**3.5**
63. Waste Management	**855**	167.9	**371**	116.2	**318**	**–118**	23.5	.30	2,018	42.4	**7.0**
64. Norfolk Southern	**852**	–1.3	**519**	3.7	**–187**	**–193**	10.2	.18	4,076	20.9	**6.3**
65. Grace (W.R.)	**847**	NM	**–375**	NM	**446**	**–521**	–28.9	.95	3,726	22.7	**2.4**
66. Lockheed	**821**	69.5	**408**	1.8	**212**	**CF**	21.9	.86	10,273	8.0	**4.0**
67. Allied Signal	**819**	NM	**605**	NM	**–279**	**–1,096**	15.6	.80	11,794	6.9	**8.5**
68. Contel	**812**	12.1	**233**	–2.9	**–94**	**–7**	15.5	1.35	3,074	26.4	**2.7**
69. Ryder System	**805**	30.6	**161**	28.4	**–223**	**–244**	13.7	1.74	3,768	21.4	**3.2**
70. Allegis	**787**	NM	**12**	NM	**–1,066**	**–1219**	0.5	1.39	9,196	8.6	**3.3**
71. Baxter Travenol Laboratories	**786**	NM	**181**	32.1	**331**	**–448**	6.4	.53	5,543	14.2	**5.3**
72. Squibb	**785**	224.8	**264**	16.4	**584**	**–72**	19.4	.17	1,785	44.0	**7.5**
73. General Motors Class H	**761**	NA	**594**	21.6	**–62**	**NA**	8.9	.09	10,372	7.3	**0.0**
74. MCA	**751**	–2.9	**155**	3.5	**–126**	**–98**	9.8	.16	2,441	30.8	**3.9**
75. AMR	**746**	–16.3	**279**	–19.3	**–1,043**	**–427**	11.3	1.07	6,018	12.4	**4.2**
76. McDonnell Douglas Corp.	**738**	69.5	**278**	–19.7	**–8**	**–219**	9.8	.35	12,661	5.8	**3.9**
77. SmithKline Beckman	**733**	6.2	**521**	1.3	**CF**	**CF**	40.2	.27	3,745	19.6	**8.3**
78. Pfizer	**732**	17.1	**660**	13.9	**263**	**36**	19.5	.16	4,476	16.4	**13.8**
79. Borden	**718**	62.7	**223**	15.2	**468**	**165**	15.5	.72	5,002	14.4	**4.8**
80. Occidental Petroleum	**715**	–48.4	**172**	–62.2	**–763**	**–267**	2.5	1.94	15,344	4.7	**6.3**
81. Champion International	**706**	–2.9	**201**	23.1	**13**	**80**	7.5	.84	4,388	16.1	**4.1**
82. K mart[3] †	**684**	–42.0	**570**	21.0	**–177**	**371**	14.5	.76	24,046	2.8	**8.6**
83. NCR	**681**	–17.5	**337**	6.8	**215**	**341**	14.0	.08	4,882	13.9	**6.1**
84. Bristol-Myers	**680**	7.0	**590**	10.9	**154**	**170**	20.8	.14	4,836	14.1	**17.4**
85. Motorola	**676**	71.6	**194**	169	**–18**	**–411**	7.0	.23	5,888	11.5	**6.8**
86. Abbott Laboratories	**675**	–0.1	**540**	16.1	**116**	**234**	30.4	.50	3,808	17.7	**15.5**
87. Penney (J.C.)[3]	**673**	NM	**530**	33.5	**142**	**–2,071**	12.2	.86	14,740	4.6	**8.0**
88. Halliburton	**646**	37.0	**–515**	NM	**391**	**–94**	–24.0	.13	3,527	18.3	**4.0**
89. American Brands	**638**	32.5	**365**	–13.2	**136**	**–40**	13.7	.43	5,261	12.1	**7.3**
90. Dun & Bradstreet	**618**	62.5	**400**	15.4	**262**	**13**	22.8	.03	3,114	19.9	**12.9**
91. Pillsbury[2]	**601**	74.1	**208**	8.5	**179**	**–142**	15.8	.80	5,848	10.3	**4.9**
92. Navistar International[8]	**587**	273.6	**–2**	NM	**492**	**103**	NM	14.19	3,357	17.5	**0.9**
93. Lucky Stores[3]	**585**	123.1	**50**	–42.6	**251**	**–82**	17.8	1.35	6,441	9.1	**1.8**
94. Holiday	**580**	–1.4	**103**	–26.8	**142**	**52**	16.2	1.82	1,648	35.2	**2.9**
95. Penn Central	**573**	134.8	**154**	39.2	**415**	**83**	7.4	.05	2,388	24.0	**3.7**
96. General Motors Class E	**568**	–13.2	**261**	37.5	**–112**	**47**	32.7	.04	4,321	13.1	**5.3**
97. Raytheon	**566**	22.5	**393**	4.6	**79**	**–19**	20.1	.04	7,308	7.7	**8.8**
98. Martin Marietta	**563**	11.1	**202**	–18.9	**208**	**131**	24.0	.27	4,753	11.8	**3.8**
99. FMC	**549**	40.8	**153**	–22.4	**–1,528**	**–1**	NM	NM	3,003	18.3	**2.1**
100. Weyerhaeuser	**545**	–11.3	**277**	38.3	**–283**	**–221**	7.6	.56	5,652	9.6	**9.1**

CASH FLOW
THE TOP 200

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES	MARKET VALUE/ CASH FLOW RATIO
	$Millions '86	% change vs. '85	$Millions '86	% change vs. '85	$Millions '86	$Millions '85	%	%	$Millions	%	
101. **Kellogg**	**543**	20.7	**319**	13.5	**86**	**90**	35.5	.45	3,341	16.3	**11.8**
102. **Consolidated Rail**	**542**	9.2	**316**	–12.5	**–163**	**–198**	17.6	.44	3,144	17.2	**NA**
103. **Honeywell**	**539**	–11.2	**13**	–95.3	**96**	**11**	0.6	.65	5,378	10.0	**5.0**
104. **NWA**	**530**	168.0	**77**	5.2	**–169**	**–515**	7.9	1.68	3,589	14.8	**2.8**
105. **Georgia-Pacific**	**524**	–32.1	**296**	43.0	**–96**	**–2**	11.5	.47	7,223	7.3	**7.6**
106. **Gannett**	**519**	47.7	**276**	9.1	**187**	**25**	19.3	.84	2,802	18.5	**11.2**
107. **Warner-Lambert**	**518**	41.6	**309**	NM	**219**	**4**	34.1	.64	3,103	16.7	**8.1**
108. **Kroger**	**518**	88.7	**56**	–69.2	**–108**	**–250**	5.1	.77	17,123	3.0	**4.9**
109. **Tandy**[4]	**503**	NM	**198**	4.6	**446**	**–103**	15.1	.36	3,036	16.6	**7.6**
110. **Archer-Daniels-Midland**[4]	**502**	40.0	**239**	46.0	**CF**	**CF**	11.5	.28	5,336	9.4	**6.0**
111. **Goodyear Tire & Rubber**	**500**	–54.5	**101**	–66.6	**–1,047**	**–778**	3.4	.94	9,103	5.5	**8.1**
112. **Emerson Electric**[7]	**498**	54.5	**409**	1.9	**132**	**–88**	17.2	.22	4,953	10.1	**12.2**
113. **Pennzoil**	**497**	–4.2	**69**	–63.6	**154**	**–187**	7.6	1.59	1,782	27.9	**5.6**
114. **Federated Dept. Stores**[3]	**496**	–12.8	**302**	5.3	**–176**	**59**	11.3	.39	10,512	4.7	**7.8**
115. **American Cyanamid**	**494**	94.9	**203**	68.5	**136**	**–51**	11.8	.48	3,816	12.9	**7.3**
116. **Time**	**492**	104.6	**376**	88.2	**157**	**–73**	28.9	.73	3,762	13.1	**8.6**
117. **CPC International**	**486**	41.1	**219**	54.4	**–4**	**–205**	22.9	1.61	4,549	10.7	**6.7**
118. **Colgate-Palmolive**	**480**	129.0	**177**	5.8	**133**	**–125**	18.3	.69	4,985	9.6	**6.0**
119. **Sun**	**479**	–77.0	**385**	–27.0	**–1,103**	**190**	7.3	.48	9,376	5.1	**12.2**
120. **TRW †**	**472**	–0.3	**218**	62.8	**–82**	**–108**	18.0	.95	6,036	7.8	**5.3**
121. **CBS**	**470**	–21.7	**190**	–6.3	**144**	**395**	22.0	.69	4,646	10.1	**6.4**
122. **Dayton-Hudson**[3]	**466**	4.7	**255**	–10.1	**–583**	**–63**	11.7	.64	9,259	5.0	**8.9**
123. **Humana**[6]	**464**	54.1	**54**	–74.8	**58**	**–217**	6.1	1.44	2,601	17.9	**4.0**
124. **Cooper Industries**	**464**	NM	**148**	9.4	**266**	**–305**	10.4	.67	3,421	13.6	**4.3**
125. **MCI Communications †**	**464**	–40.0	**–431**	NM	**–1,064**	**–288**	–34.2	2.21	3,592	12.9	**3.8**
126. **PPG Industries**	**461**	–0.1	**316**	4.5	**CF**	**CF**	16.0	.68	4,687	9.8	**9.5**
127. **Marriott**	**455**	12.9	**192**	14.5	**–634**	**–580**	19.3	1.71	5,267	8.7	**8.3**
128. **Ashland Oil**[7]	**446**	11.4	**209**	42.2	**68**	**–13**	20.7	.91	6,991	6.4	**4.1**
129. **International Paper**	**444**	–22.8	**305**	132.8	**–302**	**–399**	7.8	.53	5,500	8.1	**8.8**
130. **Campbell Soup**[5]	**442**	10.7	**223**	12.8	**129**	**124**	14.5	.29	4,379	10.1	**8.4**
131. **Federal Express**[2]	**439**	99.2	**132**	73.3	**CF**	**–390**	12.0	.58	2,606	16.9	**7.3**
132. **American Medical International**[6] **†**	**435**	4.5	**–97**	NM	**–83**	**–94**	–11.0	2.41	2,488	17.5	**3.0**
133. **Kimberly-Clark**	**426**	–26.9	**269**	0.9	**–7**	**14**	14.0	.29	4,303	9.9	**8.6**
134. **Centel**	**423**	23.7	**109**	–15.3	**80**	**–24**	11.3	1.00	1,370	30.9	**3.8**
135. **Rapid American**[3]	**418**	833.9	**–9**	NM	**259**	**–181**	–35.3	13.03	1,894	22.1	**NA**
136. **Air Products & Chemicals**[7]	**404**	13.6	**5**	–96.7	**–35**	**–117**	0.4	.67	1,982	20.4	**5.0**
137. **Heinz (H.J.)**[1]	**397**	25.9	**302**	13.4	**57**	**35**	22.2	.40	4,366	9.1	**13.6**
138. **Hercules**	**396**	266.0	**227**	70.3	**33**	**–232**	13.5	.36	2,615	15.1	**7.0**
139. **Marsh & McLennan**	**393**	97.8	**243**	49.3	**168**	**54**	38.1	.18	1,804	21.8	**11.4**
140. **Amerada Hess**	**390**	–68.4	**–219**	NM	**91**	**218**	–10.7	.75	4,015	9.7	**5.1**
141. **Borg-Warner**	**390**	–6.4	**155**	–13.6	**–10**	**78**	10.2	.29	3,379	11.5	**8.4**
142. **Wal-Mart Stores**[3]	**364**	–15.4	**450**	37.4	**–282**	**–153**	26.6	.57	11,909	3.1	**36.1**
143. **Upjohn**	**359**	4.0	**252**	24.3	**57**	**–23**	17.2	.34	2,291	15.7	**16.2**
144. **Southern New England Tel.**	**359**	0.5	**139**	16.1	**–20**	**11**	13.4	.65	1,433	25.1	**4.6**
145. **Litton Industries**[8]	**359**	–13.0	**71**	–76.3	**41**	**73**	6.9	1.52	4,521	7.9	**5.6**
146. **Goodrich (B.F.)**	**349**	189.1	**13**	NM	**65**	**–151**	1.5	.59	2,553	13.7	**2.8**
147. **Hospital Corp. of America**	**347**	–34.2	**175**	–38.5	**–350**	**–309**	8.7	1.61	4,931	7.0	**7.2**
148. **Delta Air Lines**[4]	**347**	–51.7	**47**	–81.8	**–314**	**4**	3.6	.71	4,460	7.8	**5.6**
149. **Tribune**	**346**	42.8	**293**	136.5	**148**	**33**	26.6	.48	2,030	17.1	**6.5**
150. **Scott Paper**	**345**	–10.2	**187**	–7.3	**CF**	**CF**	13.8	1.10	3,437	10.0	**6.6**

CASH FLOW
THE TOP 200

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES	MARKET VALUE/ CASH FLOW RATIO
	$Millions '86	% change vs. '85	$Millions '86	% change vs. '85	$Millions '86	$Millions '85	%	%	$Millions	%	
151. Warner Communications	342	0.9	164	–16.2	–267	311	13.1	.44	2,848	12.0	8.2
152. Johnson Controls[7]	341	NM	96	22.5	177	–218	10.8	.29	2,639	12.9	3.2
153. Dresser Industries[8]	341	43.0	1	NM	190	–7	0.0	.34	3,661	9.3	4.3
154. Union Camp	338	19.3	130	36.6	31	–55	9.5	.50	2,045	16.5	7.4
155. Textron	336	868.0	242	34.2	63	–231	13.3	1.20	5,023	6.7	7.5
156. Tri Star Pictures	332	NA	14	771.4	331	NA	6.4	.91	254	130.6	0.8
157. American Standard	330	120.9	110	NM	69	–88	13.1	.42	2,998	11.0	4.3
158. Wang Laboratories Class B[4]	329	64.8	51	228.4	59	–244	3.5	.50	2,643	12.4	5.3
159. Times Mirror	328	–23.8	408	72.1	–216	–50	31.4	.69	2,920	11.3	12.5
160. Wickes[3]	322	NM	74	163.2	4	–729	5.3	2.24	4,770	6.8	2.6
161. Maxus Energy	321	–50.7	–196	NM	–166	–175	–15.4	.82	2,513	12.8	4.2
162. Combustion Engineering	321	NM	56	NM	188	–243	8.2	.23	2,551	12.6	3.2
163. Schering-Plough	320	18.6	266	38.0	80	–34	18.2	.62	2,399	13.4	14.4
164. Woolworth (F.W.)[3]	318	10.4	214	20.9	28	21	14.4	.25	6,244	5.1	8.0
165. Lone Star Industries	317	65.5	117	115.4	192	CF	17.8	.65	883	35.9	1.5
166. Kerr-McGee	316	–58.3	–292	NM	–92	171	–21.8	.60	2,535	12.5	4.3
167. Apple Computer[7]	315	25.0	154	151.5	249	198	22.2	.00	1,902	16.6	8.1
168. Sara Lee[4]	311	–39.2	223	8.3	–20	161	19.0	.61	7,938	3.9	11.6
169. USG	310	–12.8	255	14.1	9	132	43.7	1.47	2,724	11.4	6.4
170. Rohm & Hass	307	7.8	138	–2.1	34	25	13.8	.39	2,067	14.9	7.8
171. American Stores[3]	305	2.4	145	–6.4	30	1	14.2	.96	14,022	2.2	5.5
172. AMP	305	28.6	164	52.2	60	–69	14.5	.17	1,933	15.8	12.8
173. Melville	303	–3.9	238	8.4	71	131	18.9	.06	5,262	5.8	9.7
174. Westvaco[8]	300	56.3	108	3.3	5	–185	10.0	.48	1,812	16.5	5.9
175. Koppers	291	NM	63	NM	56	–140	12.5	.27	1,396	20.9	2.9
176. Pitney-Bowes †	290	27.9	166	14.9	18	–24	18.4	.27	1,987	14.6	9.7
177. Bally Mfg.	290	49.5	24	–7.6	82	–35	4.8	2.66	1,593	18.2	2.1
178. Knight-Ridder	289	27.3	140	5.5	92	73	17.2	.82	1,911	15.2	9.3
179. USAir	289	21.5	98	–16.0	–46	–111	10.0	.43	1,835	15.7	3.4
180. Dow Jones	287	25.5	183	32.3	160	19	25.2	.08	1,135	25.3	13.1
181. Great Northern Nekoosa	287	81.2	85	84.6	90	–3	8.1	.41	2,039	14.1	6.0
182. Burlington Industries[7]	287	8.4	57	349.6	53	28	5.0	.41	2,778	10.3	4.0
183. Limited[3]	283	22.5	228	56.8	54	30	29.2	.09	3,143	9.0	21.2
184. Louisiana Land & Exploration	274	–33.3	–21	NM	88	80	–3.4	1.07	793	34.6	3.1
185. Sterling Drug	272	52.5	172	11.9	98	26	17.6	.36	1,990	13.7	10.0
186. Boise Cascade	270	–13.3	102	–2.6	–242	–113	6.4	.77	3,740	7.2	6.4
187. Minstar	269	NM	–1	NM	149	–396	–0.6	2.89	990	27.2	1.4
188. GenCorp[9]	267	25.7	130	166.7	29	4	12.4	.24	3,099	8.6	6.2
189. Quaker Oats[4]	267	10.7	174	11.2	40	75	20.7	.56	3,671	7.3	11.7
190. Cabot[8]	265	70.7	73	2.5	152	–30	12.4	.79	1,310	20.2	3.2
191. Ingersoll-Rand	264	137.0	101	26.5	92	–116	9.0	.45	2,799	9.4	4.2
192. Manville	261	49.9	81	NM	123	9	5.8	.09	1,920	13.6	0.2
193. New York Times Class A	259	36.5	132	13.7	122	53	18.7	.36	1,565	16.6	11.2
194. Corning Glass Works	256	9.3	162	50.7	CF	CF	12.0	.26	1,856	13.8	9.6
195. James River[1]	251	102.0	95	–6.0	–59	–118	11.8	.87	2,607	9.6	7.0
196. Alltel	246	25.0	56	–20.5	12	–34	10.3	1.17	697	35.3	3.5
197. Murphy Oil	245	–9.0	–195	NM	51	–49	–25.1	.37	1,313	18.7	3.4
198. Ralston Purina[7]	244	–55.1	264	2.8	–47	207	26.4	2.12	5,515	4.4	22.1
199. Winn-Dixie Stores[4]	242	–2.3	116	7.9	–20	14	16.5	.17	8,225	2.9	7.8
200. Firestone Tire & Rubber[8]	241	129.5	3	NM	–29	–199	0.3	.27	3,501	6.9	4.5

ALPHABETICAL RANKING—CASH FLOW: THE TOP 200

The company ranking appears in boldface for 1986 and in lightface for 1985.

COMPANY	Rank '86	Rank '85
AMP	**172**	182
AMR	**75**	50
AT&T	**4**	5
Abbott Laboratories	**86**	73
Air Products & Chemicals	**136**	131
Allegis	**70**	
Allied Signal	**67**	
Alltel	**196**	
Aluminium Co. of America	**62**	61
Amerada Hess	**140**	36
American Brands	**89**	99
American Cyanamid	**115**	168
American Home Products	**33**	58
American Info. Tech.	**14**	14
American Medical Int'l.	**132**	111
American Standard	**157**	
American Stores	**171**	149
Amoco	**19**	7
Anheuser-Busch	**57**	48
Apple Computer	**167**	170
Archer-Daniels-Midland	**110**	127
Ashland Oil	**128**	116
Atlantic Richfield	**40**	9
Bally	**177**	
Baxter Travenol	**71**	
Bell Atlantic	**12**	15
BellSouth	**7**	13
Boeing	**24**	19
Boise Cascade	**186**	145
Borden	**79**	106
Borg-Warner	**141**	110
Bristol-Myers	**84**	78
Burlington Inds.	**182**	162
Burlington Northern	**38**	30
CBS	**121**	85
CPC Int'l.	**117**	135
CSX	**51**	53
Cabot	**190**	
Campbell Soup	**130**	117

COMPANY	Rank '86	Rank '85
Centel	**134**	137
Champion Int'l.	**81**	67
Chevron	**6**	4
Chrysler	**18**	18
Coca-Cola	**55**	42
Colgate-Palmolive	**118**	
Combustion Engineering	**162**	
Consolidated Rail	**102**	
Contel	**68**	68
Cooper Inds.	**124**	
Corning Glass	**194**	184
Dayton-Hudson	**122**	105
Delta Air Lines	**148**	69
Digital Equipment	**35**	77
Dow Chemical	**31**	70
Dow Jones	**180**	191
Dresser Inds.	**153**	180
Du Pont (E.I.)	**11**	11
Dun & Bradstreet	**90**	122
Eastman Kodak	**36**	43
Emerson Electric	**112**	140
Exxon	**3**	1
FMC	**99**	119
Federal Express	**131**	195
Federated Dept. Stores	**114**	91
Firestone Tire & Rubber	**200**	
Ford Motor	**2**	6
GTE	**9**	12
Gannett	**106**	132
GenCorp	**188**	200
General Dynamics	**41**	86
General Electric	**16**	20
General Mills	**50**	
General Motors	**5**	2
General Motors (Class E)	**96**	75
General Motors (Class H)	**73**	
Georgia-Pacific	**105**	64
Goodrich (B.F.)	**146**	

COMPANY	Rank '86	Rank '85
Goodyear Tire & Rubber	**111**	40
Grace (W.R.)	**65**	
Great Northern Nekoosa	**181**	
Halliburton	**88**	101
Heinz (H.J.)	**137**	144
Hercules	**138**	
Hewlett-Packard	**52**	51
Holiday	**94**	87
Honeywell	**103**	83
Hospital Corp. of America	**147**	93
Humana	**123**	148
ITT	**23**	32
Ingersoll-Rand	**191**	
Int'l. Business Machines	**1**	3
Int'l. Paper	**129**	90
James River	**195**	
Johnson & Johnson	**39**	45
Johnson Controls	**152**	
Kellogg	**101**	104
Kerr-McGee	**166**	65
Kimberly-Clark	**133**	88
K mart	**82**	39
Knight-Ridder	**178**	192
Koppers	**175**	
Kraft	**53**	
Kroger	**108**	158
Lilly (Eli)	**58**	89
Limited	**183**	187
Litton Inds.	**145**	112
Lockheed	**66**	98
Lone Star Inds.	**165**	
Louisiana Land & Expl.	**184**	113
Lucky Stores	**93**	164
MCA	**74**	62
MCI Communications	**125**	63
Manville	**192**	
Marriott	**127**	114
Marsh & McLennan	**139**	
Martin Marietta	**98**	96
Maxus Energy	**161**	

COMPANY	Rank '86	Rank '85
McDonald's	**60**	55
McDonnell Douglas	**76**	107
Melville	**173**	142
Merck	**54**	47
Minn. Mining & Mfg.	**32**	38
Minstar	**187**	
Mobil	**10**	10
Monsanto	**48**	60
Motorola	**85**	118
Murphy Oil	**197**	161
NCR	**83**	56
NWA	**104**	
Navistar Int'l.	**92**	
New York Times (Class A)	**193**	
Norfolk Southern	**64**	37
NYNEX	**15**	17
Occidental Petroleum	**80**	31
PPG Inds.	**126**	103
Pacific Telesis	**13**	22
Penn Central	**95**	174
Penney (J.C.)	**87**	
Pennzoil	**113**	94
PepsiCo	**27**	80
Pfizer	**78**	79
Philip Morris	**22**	41
Phillips Petroleum	**44**	25
Pillsbury	**91**	134
Pitney-Bowes	**176**	194
Procter & Gamble	**42**	59
Quaker Oats	**189**	177
RJR Nabisco	**17**	29
Ralston Purina	**198**	92
Rapid-American	**135**	
Raytheon	**97**	102
Rockwell Int'l.	**37**	49
Rohm & Haas	**170**	155
Ryder System	**69**	81
Santa Fe Southern Pacific	**43**	35
Sara Lee	**168**	95
Schering-Plough	**163**	160
Scott Paper	**150**	121
SmithKline Beckman	**77**	72

COMPANY	Rank '86	Rank '85
Southern New Eng. Tel.	**144**	128
Southland	**59**	147
Southwestern Bell	**20**	21
Squibb	**72**	176
Standard Oil	**25**	16
Sterling Drug	**185**	
Sun	**119**	24
TRW	**120**	100
Tandy	**109**	
Tenneco	**47**	26
Texaco	**8**	8
Texas Air	**56**	186
Textron	**155**	
Time	**116**	178
Times Mirror	**159**	108
Tribune	**149**	175
Tri Star Pictures	**156**	
USX	**26**	
USG	**169**	129
Union Camp	**154**	156
Union Carbide	**34**	
Union Pacific	**29**	33
Unisys	**49**	
United Parcel Service	**46**	44
USAir	**179**	180
US West	**21**	23
United Telecommunications	**61**	46
Unocal	**30**	28
Upjohn	**143**	133
Wal-Mart	**142**	109
Wang Laboratories	**158**	
Warner Communications	**151**	138
Warner-Lambert	**107**	126
Waste Management	**63**	141
Westinghouse Electric	**45**	71
Westvaco	**174**	
Weyerhaeuser	**100**	82
Wickes	**160**	
Winn-Dixie	**199**	172
Woolworth (F.W.)	**164**	152
Xerox	**28**	27

DEFINITIONS AND FOOTNOTES

Definitions:

Cash flow from operations was derived from the following formula: net income (not including extraordinary items) adjusted to remove expenses not requiring cash (depreciation and deferred taxes) and income not generating cash (unremitted earnings from unconsolidated subsidiaries) and also adjusted for changes from the prior year in current receivables, other current assets other than cash and cash equivalents, current accounts payable, income taxes payable and other current liabilities other than notes payable and debt due within one year.

–Percentage change in cash flow from operations is current cash flow divided by the prior year's cash flow.

–Discretionary cash flow from operations is cash flow from operations minus capital expenditures, total dividends and debt due in one year as reported in prior year's statement.

–Return on common equity is net income available for common shareholders divided by common equity—that is, common stock plus capital surplus and retained earnings.

–Debt as a percentage of equity is the ratio of total debt to total equity. It is calculated by taking long-term debt plus the portion of long-term debt due in one year plus notes payable and dividing the total by total shareholder equity (preferred stock plus common stock, capital surplus and retained earnings).

–The market value/cash flow ratio is arrived at by multiplying the number of shares outstanding on December 31, 1986 with the share price of that day and then dividing that result by the cash flow.

Abbreviations:

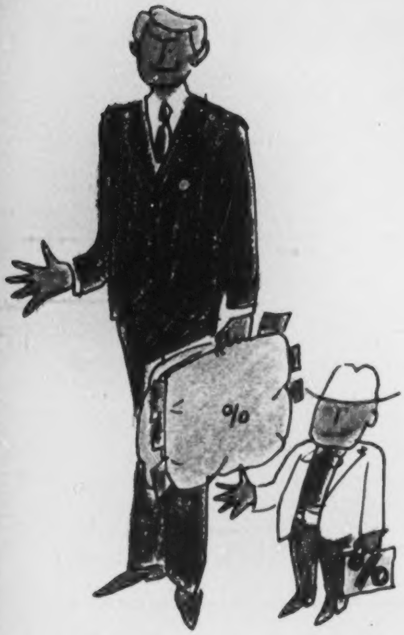
cf: combined figure (calculation cannot be done because the company did not report individual items). *nm:* not meaningful (equation contains one or more negative numbers). *nr:* not reported (item required to do calculation was not reported). *na:* not available.

Footnotes:

1. Fiscal year ended April 30, 1985. 2. Fiscal year ended May 31, 1985. 3. Fiscal year ended January 31, 1986. 4. Fiscal year ended June 30, 1986. 5. Fiscal year ended July 31, 1986. 6. Fiscal year ended August 31, 1985. 7. Fiscal year ended September 30, 1986. 8. Fiscal year ended October 31, 1986. 9. Fiscal year ended November 30, 1986. † The net income reported by these companies includes items that are normally excluded in our calculations.

Source:

–The study is drawn from the Standard & Poor's Compustat data base of 6,400 companies from which were eliminated financial companies (savings and loans, banks, insurance companies, securities firms and finance companies), as well as companies with more than 50% of profits from finance subsidiaries of domestic companies and regulated gas and electric utilities.



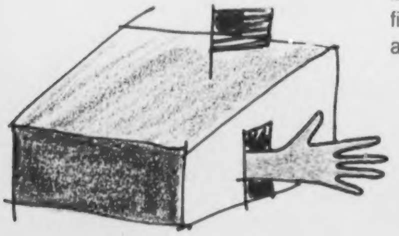
New Financial Products, More Competition Good News for Corporate Treasurers

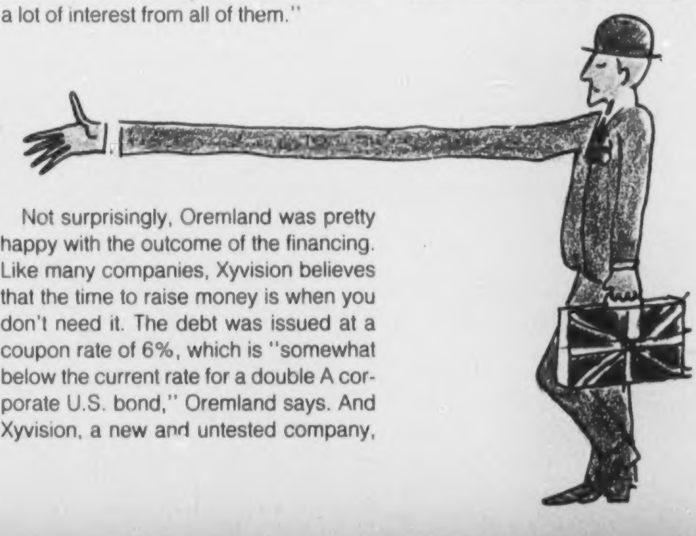
Money center banks, investment bankers, insurers, overseas sources cutting into local and regional bankers

A decade ago, a $35 million company with no credit rating seeking a $25 million loan might have pleaded with every bank in its region with no success. If it had been successful, it's a safe bet that it would have been forced to pay a rate significantly above the prime.

Contrast that with the experience of Xyvision Inc., a tiny, but rapidly growing company in the desktop publishing business. In April, it raised $25 million by issuing convertible Eurobonds. Although it didn't have an immediate need for cash, the terms were too good to pass up.

Not only did Xyvision get a favorable 6% rate on the financing, but the Wakefield, Massachusetts, company, which went public only a year ago, was courted by some of the top names in commercial and investment banking, all of them eager for its business. The financing was underwritten by Credit Suisse/First Boston Corp., one of the biggest international investment bankers, and Montgomery Securities.





As the Xyvision financing illustrates, the corporate banking and finance marketplace has become a global one. The largest corporations have enjoyed great flexibility in financing for some time. Now the same opportunities are filtering down to smaller and smaller companies.

The so-called "middle market" companies are no longer dependent solely on their local bank or even a regional bank for credit, for counsel or for cash management services. If they don't like what the banks offer, they can go to London. And, the top investment banking firms and commercial banks are in fierce competition for these small and medium-sized companies. In fact, when Xyvision went public in July 1986, "We spoke with most of the major investment banking firms," says Steven Oremland, chief financial officer of Xyvision. "There was a lot of interest from all of them."

Not surprisingly, Oremland was pretty happy with the outcome of the financing. Like many companies, Xyvision believes that the time to raise money is when you don't need it. The debt was issued at a coupon rate of 6%, which is "somewhat below the current rate for a double A corporate U.S. bond," Oremland says. And Xyvision, a new and untested company, obviously could not get a double A rating. "The coupon rate is also below what we're able to earn with conservative investments of our cash," he explains. "So the burden of the financing was close to negligible."

Further, the debt was convertible to equity at a 25% premium over the stock's trading price. "So whether we viewed it as a debt financing or an equity financing, it was a very good deal;" he concludes.

This hot competition to provide corporate banking and finance services to companies across the spectrum is good news for corporate treasurers who, like Oremland, are now likely to be wooed by more and bigger players proffering a larger array of products than ever before. It means that banks and investment banks have pared profit margins to offer new and cheaper products for both credit and cash management needs. In addition, some insurance companies are entering the fray with an extension of their traditional real estate lending to include new types of loan products.

By the same token, more is expected of the corporate treasurer. "The treasury function is really starting to show its strength in dealing with financial institutions," says Laurence Pettit, banking professor at the University of Virginia. "The corporate officer in charge is really running a profit center. He's got to do something about lowering his costs and getting the most bang for his buck, where before there was a tendency to just look for a comfortable relationship and not be too concerned about it."

Pettit adds that treasurers used to talk about getting money at maybe 7%, 8% or 9%. Today, there's no such sloppiness. "Now, we hear things like 7.893 percent," he says. "The treasurer is in the middle and he knows he has to provide money at the lowest possible cost." And, those who do business with middle market companies add, treasurers at these small and medium sized firms have become increasingly sophisticated. No matter if the product is asset-based financing or currency swaps, these clients are apparently a match for their bankers.

Companies Using More Banks

Size	Av. No of Banks Used in:	1982	1983	1984	1985	1986
1-100		4.8	5.6	4.5	5.7	7.1
101-200		3.5	3.8	3.6	3.6	4.3
201-300		3.9	2.9	2.6	3.3	3.5
301-400		2.9	2.3	2.4	3.1	3.0
401-500		2.6	2.2	1.6	1.8	2.4
Total Industrials		3.2	2.8	2.8	3.1	3.7

A Look at the Key New Credit Service Products

Raising money has probably never been easier or cheaper. A host of players is vying for the corporate treasurer's business—each of them devising new products to help him or her do the job better and more quickly. "Today, Triple A credits can borrow directly from the public and access long-term debt markets domestically and internationally," says John A. Canning Jr., executive vice president and corporate partner at First National Bank of Chicago. "The market is now a quasi-public market where there is the ability of companies to raise money in a very easy fashion."

Here are some examples of what's happening:

■ *Commercial bankers are moving assets off the balance sheet by packaging or "securitizing" them so they can do more business and reduce risk.* In some cases, loans are pooled and interests in the pool of loans are sold as securities to investors.

While banks like loan sales, there are indications that commercial customers are not as happy with this new technique. A corporate banking study by Greenwich Associates, a Greenwich, Connecticut-based research firm, found that 41% of large corporations have some objection to this practice. Nearly 60% of those who objected disliked the loss of a principal relationship with the bank. Three other potential drawbacks cited by more than half of the large corporations were: loss of flexibility; loss of confidentiality; and loss of control. The study found that smaller borrowers were most concerned about loss of a relationship, while larger borrowers worried that the securities derived from the loans would compete in the marketplace with their own commercial paper.

■ *Investment bankers stand ready to provide bridge loans to do an entire financing.* "They'll put their balance sheet at risk for the whole thing and then turn around and use their distribution capability to get it off their books," Canning says.

■ *The junk bond market has grown from almost nothing to $100 billion in four or five years time.* A recent study by Drexel Burnham Lambert found that among 23,000 U.S. companies with sales of at least $25 million, fewer than 800 had investment grade ratings. The others now have a new source of financing through junk bonds.

■ *Insurers are expanding from their traditional base of real estate lending.*

Treasurers have been quick to take advantage of this wide open marketplace. And, in many cases, what it has meant is a loss of market share for commercial banks. For example, in an effort to cut their banking fees, many corporations no longer maintain a relationship with a lead bank. A lead bank, or agent bank, deals for the corporation in the marketplace, charging an agency fee to line up other lenders. Many corporations have decided to eliminate that costly service by dealing in the market themselves, picking and choosing the exact services they want.

The Greenwich study found that, increasingly, large corporations do business based on the cost of a single transaction rather than their relationship with a bank. Nearly two thirds of the corporations surveyed in the 1986 study said their relationships with banks had changed over the past five years. Many companies are concentrating their relationships with fewer banks. They're also paying their bankers less.

Investment bankers have some clear advantages in this competition for the treasurer's business. "The commercial banker always has to look at the long term and try to figure out when this money will be paid back," says Laurence Pettit, banking professor at the University of Virginia. "The investment banker doesn't have to worry about that. He can simply sell the transaction."

To compete, banks not only will have to get bigger and stronger, but leaner and meaner, Pettit says. "They're going to have to produce more. They're going to have to earn more per employee than in the past, which means selling more bank services through each employee." And they must become better at offering the whole range of services. "They have to stop thinking in terms of 'How much money can I loan you?' and think about: 'What can I do to assist you financially in anything from swaps to a private placement or back to the old standbys of cash management and lines of credit?' " The old style inaction that forced bank clients to wait three weeks to find out about a loan approval is "gone forever," Pettit says. "They must be ready to act on their customer's needs because there's someone else waiting out there."

Greenwich Associates found that commercial banks are working hard to sell investment banking services, especially interest rate swaps, currency swaps, bankers acceptances, Euronote issues and Eurobond issues.

The swap market, which is only about five years old, has exploded, according to the International Swap Dealers Association, the trade group that is working to standardize the trades. In an interest rate swap, two institutions agree to trade floating rate payments for fixed rate debt to fit better with their own obligations. While this was considered an arcane financing area only a few years ago, ISDA estimates current volume at about $400 billion a year.

Both commercial and investment bankers are active players in this rapidly growing market. In March, ISDA completed development of a master agreement that it hopes will both reduce costs for players in the marketplace and also decrease legal fees, fueling even more rapid market growth and bringing in smaller size players. "The master agreement should help simplify what has been up to now a relatively complex process of documenting these deals and should make the process more efficient and less costly," says Mark Brickell, vice president in the international financial management department at Morgan in New York. "Perhaps most important, it should accelerate the ability for netting of contracts against each other when multiple swap agreements exist."

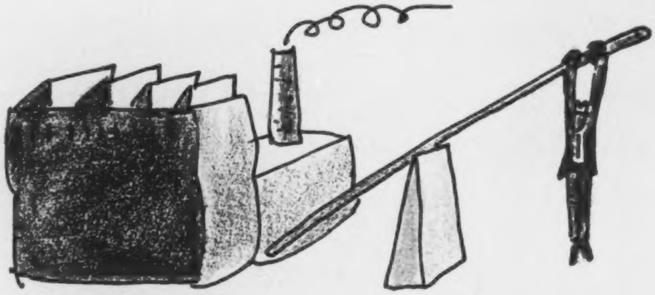
One thing that may affect banks' ability to compete in this marketplace is an expected crackdown by regulators, according to Malcolm T. Murray Jr., president of Robert Morris Associates and executive vice president of First Union National Bank in Charlotte, N.C. Because banks have created so many new off-balance sheet products in their effort to compete with investment bankers, Murray expects a backlash from regulators, probably by yearend.

"As we have gone through the explosion of off-balance sheet kinds of risk, they have not been captured by our historic balance sheet monitoring systems," Murray says. "Whether it's floating rate notes, standby letters of credit or swaps, all of those represent assurances to corporate customers of future funding capacity, future risk absorption or both. Now, we see regulators actively gathering up those off balance sheet items so they will have a regulatory tool to use with the banks." As a result, regulators "will require banks to constrain their activity in these areas," he says.

One area where there is not much competition is jumbo asset-based financing deals, according to one of the major players in this market, who asked not to be identified. Like other markets, it's become more of a transaction than a relationship business, he says. But, because borrowers prefer only one lender at the close, there are only seven players that can handle the really big deals: Bank of Boston, GE, Bankers Trust, Citicorp, Wells Fargo, Heller and Security Pacific.

In the broader area of asset-based lending, observers say there seems to be a leveling off of activity in Leveraged Buy Outs. They attribute it to the fact that, with the rise in the stock market, companies cost more. Many of the deals are therefore being done in layers with more lenders at the close and a number of equity funds and mezzanine funds.

Rather than LBOs, some companies are turning to an Initial Public Offering for a subsidiary or different types of restructurings. One lender in this market argues that subsidiary spinoffs, however they are achieved, have proven that small companies can operate more efficiently than conglomerates and that this fact alone will assure that there will continue to be financing available for them as well as for the big players.



Due to high stock prices, LBOs are being done in layers with more lenders

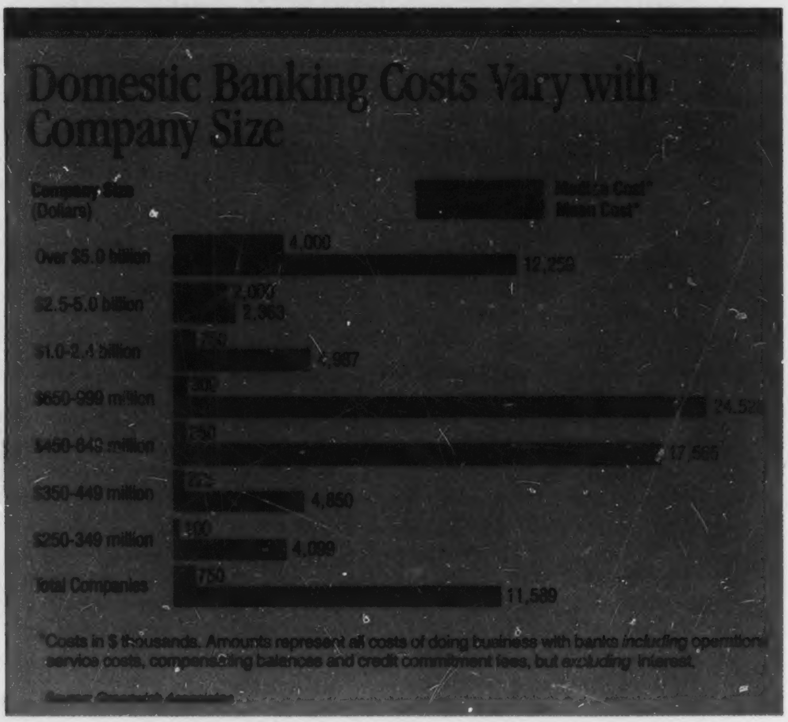
Credit Market Aboil For Smaller Companies

While competition is heavy in all sectors of corporate banking and finance, investment and commercial bankers and insurers know that the largest companies have squeezed their profit margins to the bone. So, the biggest players have turned to the small and medium sized companies with potential to grow.

An indication of the availability of credit to medium-sized companies was evident in a recent study by Harris Trust and Savings Bank in Chicago. The bank surveyed 588 firms with annual sales of $10 million to $250 million. These businesses cited the availability of local credit as the most beneficial factor for business growth. In fact, 54% rated the willingness of local lenders to provide needed capital as the most advantageous future business factor.

Why is everyone rushing to raise money for these companies? Most importantly, there's more money to be made from smaller companies. Smaller companies pay significantly more for corporate banking services than do larger companies, according to a 1987 study by Greenwich Associates. The spread ranges from 48 basis points among the largest companies to 72 basis points among the smallest.

"The typical middle market borrower pays 54 basis points over the prime rate," the study says. Twenty-one percent borrow at prime and over 5% get money at a discount to the prime.


Domestic Banking Costs Vary with Company Size

*Costs in $ thousands. Amounts represent all costs of doing business with banks *including* operational service costs, compensating balances and credit commitment fees, but *excluding* interest.

Source: Greenwich Associates

Apparently, there's some ferment in this marketplace, too. More than a third of these companies concentrate their business with just one bank. But there are indications that many are looking for better service. During the past year, 20% had taken steps to improve bank relationships and even more planned to take action during the next 12 months. And they have plenty of alternatives. The study found that the typical middle market company is being courted by four banks, including two that are seeking new business.

And there are indications that the middle market companies loyalty to regional banks is eroding slightly. The Harris Bank survey found that 52% of the firms surveyed in Chicago would choose one of the major Chicago banks to finance a merger or acquisition, while 21% preferred a suburban Chicago bank. But 18% said they preferred an investment banker, and 10% would go outside Illinois for a banker.

Investment bankers are succeeding in penetrating the middle market in other ways as well. Nearly half of the middle market companies use one or more investment banking services, the Greenwich study found. Two services used by nearly 20% of companies surveyed: pollution control or industrial revenue financing and major equipment leasing.

Similarly, interest rate swaps are being made available to smaller and smaller companies; according to Malcom T. Murray Jr., president of Robert Morris Associates, a group of commercial lending officers. "Initially banks were intermediaries and the players had to be large," he says. "But now, they take a large swap on one side and match it up with many smaller swaps on the other."

At Manufacturers Hanover, the bank can set up swaps for smaller customers because the bank looks at swaps as a book rather than a process of pairing up customers to each side of every deal, according to William Schwartz, vice president on the swap desk. "We don't have to match every little $5 million deal to another deal," he says. "We're looking at a dynamic book. So the minimum size has come down substantially." He adds, "This is no longer a product just for the Fortune 500. This is middle market; a product for $50 million companies."

Schwartz says there is still a substantial amount of back office and legal work involved in each deal and that the fees associated with that might make it prohibitive for a player who is too small. "So a small deal has to carry a little more overhead," he says, "maybe 3-to-5 basis points."

But, Schwartz says, "Three years ago, we would not have contemplated a swap under $25 million in principal. The average size of our swap today is well under $25 million, so that means we're doing plenty of $5 and $10 million swaps. In fact, we've done a $1 million swap."

The middle market players have become much more sophisticated as well, Schwartz says. "I am absolutely amazed when I talk with customers who have never done one of these before and they say to me: 'What is the spread on that?' " he says. "And I'm talking about middle market companies. I don't have to draw charts, arrows or the like."

In the past, although big corporations had credit lines, smaller companies didn't have the clout to get them. But that's changing, too. The Greenwich study found that nearly 75% of the middle market company are using confirmed lines of credit this year, up from 53% in 1985. More than 40% use three additional credit services: guaranteed or standby letters of credit (used by 51% this year, up from 28% in 1985); unconfirmed lines of credit (used by 42%, up from 23%); and unsecured revolving credit.

Loan commitments are just as important to these companies as they are to the giants. "Customers without commitments face considerable uncertainty about both the cost and availability of funds," according to a piece written by Mitchell Berlin, economist for the Federal Reserve Bank of Philadelphia, in that bank's publication, *Business Review*.

During the interest rate volatility of the 1970s and 1980s, the bigger markup and the greater risk of unavailability of credit made these commitments more valuable to customers, the economist says. And, Berlin continues, they're good for banks too. "Banks can take advantage of customers' willingness to pay for the insurance a loan commitment offers. The most common form of payment, a fee based on the unborrowed balance of the commitment, is especially attractive to banks seeking a stable source of income in an uncertain environment."

Likewise, it discovered that smaller businesses lose investment potential by leaving excess earned income in compensating balances. The WCMA was developed for businesses with sales below $50 million. "Although businesses of this size can certainly benefit from better cash management, they haven't had the clout to demand sophisticated cash management and credit services," says J. Arthur Urciuoli, senior vice president/director of business financial services.

Interest rate swaps: more common

Most observers agree that small and medium-size companies are profiting from this new competition to win their business. "The profit margins are uniformly being driven out of these products," says one. But Murray adds a note of caution: "One should be sure that the company understands all the potential negatives. There could be some pretty significant complications. With these new-found opportunities come a new set of rules and potential complications."

In the past, middle market companies have been accustomed to great flexibility with their banks and they relied on their bankers for a good deal of financial advice, Murray says. When they begin playing on larger courts, they lose flexibility. "Now they find that these products are transaction-driven. They are stand-alone products," he says. "They either have high prepayment costs or they are simply inflexible."

Similarly, with loan sales and securitization, Murray says, "The middle market borrower may find that while he has been accustomed to the flexibility of working with his bank, once the loan is done, he will lose that flexibility."

Be that as it may, it seems a certainty that as the treasurers of smaller companies grow more sophisticated and entertain more suitors looking for their business and offering lower fees, they're bound to consider the options.

Cash Management Now Much More Sophisticated

Cash management services, once pretty ho-hum endeavors used as loss leaders to get customers in the door, have become the battleground for a push-and-pull relationship between bankers and their clients.

The volatile interest rates of the early 1980s forced treasurers to focus their attention on cash flow, says Stephen J. MacQuarrie, division executive of cash management at the Bank of Boston: "Things that weren't worth doing to your cash at 6% were worth doing at 15% or 20% and that really drove cash management services."

But just as companies were getting into the swing of managing their cash flow to eke out every bit of extra interest, rates plummeted in 1983. At the same time, bankers, operating in a deregulated environment, decided they couldn't give these services away anymore, MacQuarrie says.

"Banks had been looking at cash management as an adjunct to their credit business," he explains. "But as the credit business got much tighter, they started treating it like a real business, which meant they started charging more." Rates zoomed for the first half of this decade, increasing an average of 14% a year, according to Treasury Strategies Inc., a company that compiles a market basket of sorts on such things.

"So the companies were caught in a squeeze," MacQuarrie continues. "Money wasn't worth 15% anymore. It was worth 8%. And the cash management services today cost you twice what they did in 1980." Under the circumstances, "a lot of people thought companies would cut back on cash management services," he concludes.

But they didn't. Instead, they started looking to see what things they could do within their own offices to manage their cash flow and they began to scrutinize bank fees closely. A 1986 cash management survey by Greenwich Associates found that the number of executives looking for the best price had increased 15% since 1982 . . . to 45% of those polled.

They've managed to hold down price increases, too. Treasury Strategies recently reported that corporate cash management fees rose only 4.5% in 1986. However, according to a recent report in *American Banker*, compensating balance requirements—the money corporations are required to keep in noninterest-bearing accounts in order to get free cash management services—were up by a steep 35.2%.

Cash management price increases varied greatly by product and region, *American Banker* reported. The highest increase—5.9%—was in the Middle Atlantic region, followed by 5.6% in the West. Lowest increases were 1.8% in the Southeast; 2.9% in the Southwest.

When banks reexamined the cash management business, they found it had some attractive features, MacQuarrie notes. Unlike the credit business, which can be risky and cyclical, cash management offers a steady stream of revenue. Because everyone suddenly wanted in, it became very competitive, and banks began trying to develop new products.

Unfortunately, it's not been easy, MacQuarrie says. "It's largely a mature business," he says. "Most attempts at new product development have failed. There is lots of room for product enhancements, but not for brand new ones."

Many of the big banks, therefore, are concentrating on becoming high-quality producers, on smarter marketing, on identifying target markets and products and on becoming low-cost producers. "The reason costs have not gone up so much lately is because bankers think they've hit the ceiling," MacQuarrie says.

And corporations are changing their techniques. The Greenwich study found that nearly 90% of large companies made changes in their cash management operations in 1986. Nearly 40% of them had started using microcomputers. Other common changes included reviewing the costs of services, switching from compensating balances to fees and increasing the number of services used. Likewise, 80% expected to make additional changes this year. One of the study's conclusions was that "the role of aggressive non-credit service-pricing is clearly more important in using a bank than it was five years ago."

Further, the survey found that the typical company uses eight of the top 50 cash management banks for cash management services and that it is solicited by nearly six additional banks trying to win business.

Very few of the firms surveyed operate without computers. In fact, 96% of the companies get some kind of computerized cash management information and all of them receive it on a terminal in the cash management executive's office. "The focus of much of this has to do with converting transactions to electronics or using computers to facilitate the management of the cash," MacQuarrie says.

Use of Investment Banking Services

Five different investment banking services were used by at least 25% of industrial corporations surveyed last year:

1. Advice on mergers and acquisitions
2. Commercial paper issue
3. Advice on takeover defense
4. Execution of divestiture
5. Valuation study for fee

Source: Greenwich Associates

Here are the six types of information they receive most frequently by terminal: wire transfers within past 24 hours in system; previous day report of debits, credits and balances by bank; current day report of debits, credits and balances by bank; target balances by bank; float detail; lock box receipts.

More than 80% of these executives initiate commands to their banks on the terminal. In addition to funds transfers, they issue commercial paper and initiate stop-payment commands. One of the things many anticipate doing soon is initiating letters of credit.

MacQuarrie also cites increasing use of the Automated Clearing House. An obvious use is for direct deposit of payroll checks. But he says some companies, such as General Motors, are working on a system to take all of the paperwork out of dealing with suppliers by using the ACH for the whole process from ordering through invoicing and payment.

And, he doesn't expect cash management fees to explode again like they did early in the decade. "There is a lot of supply chasing a smaller amount of demand," he says. "Banks are deathly afraid of pricing themselves out."

New Allure in Leasing Despite Loss of ITC

When accountants and other experts were sorting through the fine print of the Tax Reform Act of 1986 to try to identify the winners and losers, leasing companies looked like losers.

That's because the leasing business was set up to take advantage of the Investment Tax Credit and rapid depreciation by passing these deductions from those companies that didn't need the writedowns to those that did. With the loss of the ITC and a slowdown in depreciation, the reasoning went, leasing companies might have to hike their prices, and more companies might decide to buy rather than lease.

As it turns out, though, once those same accountants started digging, they found that leasing might save some companies millions, or even billions, of dollars. The case for leasing pivots on the new Alternative Minimum Tax. The purpose of the AMT was to make certain that all corporations pay some tax. To accomplish this, it mandates that corporations pay tax on the difference between "book" income, or that income reported to shareholders and income reported to the IRS. The AMT amounts to 20% on half the difference.

Quite naturally, companies are eager to put their best foot forward with shareholders. One of the ways they've done this is to use straight line depreciation for book income, giving that income an upfront boost. For the IRS, on the other hand, they choose accelerated depreciation because it lowers current income and, therefore, current taxes.

But under the new tax code, using accelerated depreciation for tax purposes could trigger the AMT. If using accelerated depreciation makes a company subject to the AMT, it must refigure depreciation using a slower method. So, the AMT significantly increases the after-tax cost of acquiring equipment. Lease rental payments, on the other hand, are an ordinary expense item. they do not require an AMT adjustment and they will not alter the relationship between book income and tax income.

According to the American Association of Equipment Lessors, a trade group, Price Waterhouse has done some computer simulations that demonstrate the advantage of leasing for an equipment user subject to the AMT system. They show that a company acquiring computers or general industrial machinery would pay about 3% less in equipment cost by leasing rather than buying equipment.

The advantage of leasing will apply to virtually all companies, according to the association. "It's going to cut across everything," according to Bernard J. McKenna, association chairman. "The AMT applies to virtually all companies not paying the full statutory rate of 34%."

Credits: This Focus Report was written by Mary Rowland, who is a frequent contributor to BUSINESS MONTH. Most recently, she was responsible for the May issue appraisal of Bond Funds. A former editor at *Financial World*, her articles have appeared in *Fortune, Inc, USA Today, Savvy* and *Working Woman*.

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vestment return fluctuate according to how well (or poorly) the insurance company invests your money. You choose the investment vehicle from a handful of stock, bond and mutual fund choices offered by the company; they do the investing.

Sounds great. But there are some important drawbacks to SPL policies that enthusiastic salespeople tend to play down, or don't mention at all. Here are some of the red flags:

Restricted liquidity. Yes, you can borrow—in effect, withdraw—most of your principal and earnings tax-free. In that sense, an SPL is more liquid than an Individual Retirement Account or annuity. But you must pay interest for the privilege, albeit at a low rate. And any loans still outstanding will be subtracted from the death benefit paid to your heirs. In reality, your big lump-sum premium is committed for life, unless you are prepared to pay stiff surrender penalties.

High exit penalties. You can bail out of an SPL policy but at a price. Surrender charges run between 7% and 9% and decline to zero by the seventh-to-tenth policy year. In addition, income taxes must be paid on the accumulated investment earnings. That's a big deterrent to cashing in after the ten-year mark, when the earnings buildup has become substantial.

Fees and commissions. Sales, administrative and other fees on SPL policies range from 2% to 3% a year. These annual charges, though not as high as some mutual fund fees, can seriously dilute the compounding of investment earnings. Glenn Daily, an insurance analyst at Seidman Financial Services in New York, cites one typical variable life SPL policy in which the investments generated a 12%-a-year return but yielded policy owners—after fees—a mere 9.4% in the tenth year and 9.5% in the twentieth year.

Sluggish investment results. If you buy a variable life SPL, be advised that you will be locked into a handful of company-sponsored investment funds. Be further advised that insurance companies aren't known for sizzling stock market performance. Last year, insurance company equity portfolios tracked by Lipper Analytical Services rose an average 12.9%—three percentage points less than the average stock mutual fund.

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(5/30/87) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$29.23/share	$10,104	$12,066
per cent change		+1.0%	+20.7%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$125.81	$ 9,805	$ 9,791
ACCUMULATED INCOME		$ 76	$ 914
TOTAL		$ 9,881	$10,705
per cent change		−1.2%	+7.1%
Money Market Fund	5.80%*	$10,049*	$10,570*
per cent change		+.5%*	+5.7%*
Gold (Krugerrands)	$454.50/oz.	$ 9,859	$13,117
per cent change		−1.4%	+31.2%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$116,500	$121,700	$106,000
per cent change		−4.3%	+9.9%
New House	$133,700	$136,900	$114,700
per cent change		−2.3%	+16.6%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes, Inc.; Federal Home Loan Bank Board. * Estimate.

Some companies pay lower fixed returns on whole life SPL policies than they do on annual-premium policies, but others are offering the moon. In SPLs promising unusually high returns, check the quality of the underlying investments. Executive Life Insurance of New York, Fidelity Bankers Life Insurance and others have loaded up on low-rated junk bonds in order to offer generous payoffs.

Political storm clouds. Deficit-conscious legislators are irked by insurance company ads touting SPLs as one of the last great tax shelters. Congress may well crack down on the tax-free policy loans and the buildup of investment earnings. If that happens, even the insurance lobby may not be able to win grandfathered status for existing policies. Tougher accounting rules being rumored for interest-sensitive investments could prove troublesome as well.

Superfluous insurance coverage. You must also ask yourself whether you want to pay a hefty sum now for a big slug of life insurance. A 45-year-old man might pay $25,000 to buy his heirs an $85,000 death benefit from a typical SPL policy. That's no bargain compared with term life insurance, which provides pure protection.

High-rate come-ons. Insist on seeing the performance records of the SPLs that you are considering. And remember that the high rates of return promised on whole life SPLs will expire in from one to three years. Warns Jim Kaiser, director of insurance services for Thomson McKinnon Securities: "Many insurance companies are attempting to take advantage of the current attractiveness of insurance products by offering introductory rates and special deals that are likely to terminate."

Understand that single-premium life insurance can be a good buy. But just remember that there are worse things in life than paying taxes.

—PHILIP SPRINGER

REEBOK'S RUNNING HARD TO WIN A BIGGER RA

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BUSINESS MONTH

HOW TO STAY
LEAN AND MEAN:
ADVICE FROM INTEL CEO
ANDREW S. GROVE

WHY THE ECONOMIC
EXPANSION IS
LASTING SO LONG

THE LOWDOWN ON
AD CONTESTS BY
JERRY DELLA FEMINA

0109C37
STATISTICAL REFERENCE IND
STE 800
4520 EAST-WEST HWY
BETHESDA MD 20814

BUSINESS MONTH

Feature Departments

WASHINGTON

Woman Power Is Just Beginning 18

Now that more women than men are voting, work-related issues such as pay equity, parental leave and day care will be in the spotlight in the 1988 presidential race.

MARKETING

Reebok: In For The Distance 22

Running shoes do not a $2 billion company make. That's Paul Fireman's next goal.

MANAGEMENT

How to Stay Lean and Mean 28

In a candid interview, CEO Andrew Grove of Intel Corp. talks about how a large company can react with the speed of a small one.

- **One-on-One With Andy Grove** 32

PERSONAL FINANCE

One Step Backward, Two Steps Forward 34

The experts say never take a pay cut. But for some top executives, this offbeat career strategy is the fastest route to the top.

COMPANIES

The Education Of BBN 36

Bolt Beranek and Newman Inc.'s first non-scientist CEO is turning the noted think tank into a product-oriented giant. It has been a trial-and-error learning experience.

- **The Founding Fathers** 36
- **The Dilemma of Technology Transfer** 39

ECONOMY

What Keeps the Expansion Going? 42

An analysis of the global, political and economic forces that are sustaining growth in the U.S.

- **Presidents' Panel: Worrying About Inflation** 44

August 1987, Vol. 130, No. 2

22

ADVERTISING

Judgment At Cannes 52
Jerry Della Femina watched 2,900 TV commercials in four days. The "inside skinny" on how to tell a good ad in ten seconds.

MONEY & MARKETS

Don't Panic On FAS 87 56
New accounting rules are giving pension fund managers Excedrin headaches. Wall Street has some high-price remedies.

Letters 5
PepsiCo on "unpromotables"

Managers in The News 7
American Brands picks a pilot

Managing Information 73
The ROI of PC investment software

Personal Finance 75
On Wall Street: Tudor Fund's Mickey Straus is a technology bull

Investment Update 79

The Business Month

ECONOMY
- *Inflation watch* 9
- *Slow recovery for trade deficit*

WASHINGTON
- *Reagan's legacy* 9
- *Senate passes plant notification*
- *Fallout from Toshiba ruckus*

COMPANIES
- *Iacocca's triumph* 10
- *Northrop under fire*
- *More rail mergers loom*
- *Lorenzo back on takeover trail?*
- *Allis-Chalmers succumbs*
- *Pfizer's alitame could score big*
- *Merger roundup*

INTERNATIONAL
- *Saudis to revamp oil industry?* 12
- *Business as usual in South Korea*
- *Gorbachev's rocky road*

INDUSTRIES
- *Japanese carmakers up U.S. market share* 15
- *Texas thrifts founder*
- *Food industry still ripe for mergers*
- *2010: An auto scenario*
- *Optimism in the oil patch*

LAW
- *Asbestos ruling sets precedent* 16

MONEY & MARKETS
- *A victory for the banks* 16
- *No-load funds lose market share*

LABOR
- *New UAW bargaining tack?* 17

TECHNOLOGY
- *TI's Explorer II wins raves* 17
- *NAS says technology creates jobs*
- *Imports lead four-wheel-drive race*

9

COVER PHOTOGRAPH BY BRITAIN HILL

What Keeps the Expansion Going?

Five years of putt-putt prosperity have been driven by a combination of forces we are only beginning to understand.

by David Fairlamb and Edward Mervosh

Shouldn't we be celebrating? After all, the inflation-free global expansion is nearing its fifth birthday. By summer's end it will be the longest peacetime economic upswing ever, and apparently there is more to come. "Unless the economists have got it hopelessly wrong, the world is well on the way to its first six-year or seven-year period of sustained economic growth," predicts Carlo Sartor, head of the Brussels-headquartered Confederation of European Industry.

Yet few economists, politicians or business folk are uncorking the champagne. The worldwide expansion may be the most durable on record, and has helped send global securities markets to all-time highs, but it is also one of the weakest. Sustained disinflation has replaced the hyperinflation of the Seventies. In the bargain, five-year gross national product growth of the 24 member nations of the Organization for Economic Cooperation & Development has chugged along at only 2.5% a year, and may drop to 2.25% for 1987. U.S. growth is expected to wind up at around 2.5% for this year. The West German and Japanese economies are inching forward even more slowly.

"There's not very much for us to drink to," complains Dr. Martin Croft, a business-cycle specialist at Britain's Cambridge Economics Group. Except that we have now enjoyed almost five years of economic stability. Except that runaway inflation is no longer depleting our wealth and sapping our initiative. Except that Americans are now working and earning and spending on a scale never seen before.

Could it be that today's complainers are simply greedy folks who can't stand well-modulated, inflation-free prosperity? Or is it that economists and business executives do not have the perspective to understand the combination of forces that produced today's disinflation and finally broke the numbing string of nine boom-to-bust postwar cycles? These forces are:

☐ The swift integration of the U.S. into the global economy during the Eighties.

☐ The conflicting, uncharacteristically cautious economic policies of the three most powerful industrial nations—Germany, Japan and the U.S.

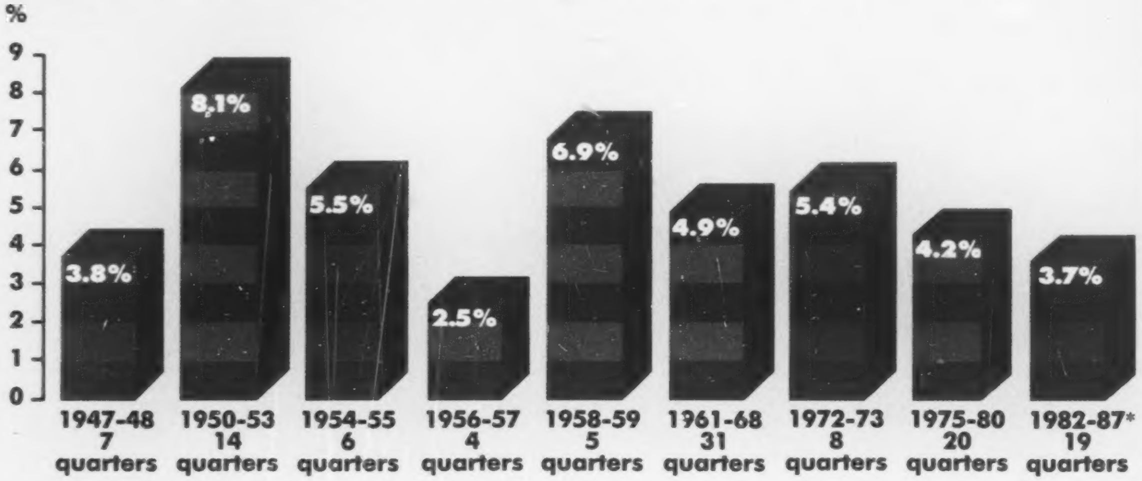
☐ Concomitant major changes within key economic sectors—including accelerated restructurings in maturing smokestack industries, jarring shakeouts in the agricultural and energy sectors, and the mushrooming significance of the service industries.

Powerful as they are, these forces have not eliminated economic ups and downs. Cycles remain one of the unhappy inevitabilities of modern industrial life. These forces have, however, ushered in a prolonged period of noninflationary growth that differs from any-

ILLUSTRATION BY RON RIDGEWAY

THE CURRENT EXPANSION: HOW WEAK IT IS

Yes, it has been long, but economic growth is the second-slowest of any since World War II.



Annual average growth in gross national product in 1982 dollars. *Includes estimate for second quarter 1987.
Source: Wharton Econometrics Inc.

thing today's generation of business executives and economists expected or are prepared to accept as desirable. We had learned to "stand" the kind of prosperity that fueled rapid inflation and then ran out of gas. What we have now is a putt-putt prosperity that is trying everyone's patience, not to mention nerves. Let us consider the forces at work.

JOINING THE WORLD ECONOMY

Nobel laureate Paul A. Samuelson describes the global integration of the U.S. economy this way: "For much of its history the U.S. was a continental, semi-autonomous economy. But around 1960 we joined the rest of the human race, and we haven't yet been able to find a way to resign."

Not until the Eighties, however, did the interdependence of the U.S. and world economies become a harsh reality for the majority of American businessmen. The U.S. economy still accounts for more than 50% of the output of the OECD countries, and still sets the growth pace for the rest of the world—expanding faster than any of the other G-7 economies from 1983 to 1986 *(see table)*. But today high-speed communications, transportation and greater access to foreign markets have made the world marketplace a two-way street for Americans—with U.S. imports jumping from 10% to 14% of the GNP since 1976 while exports rose from 9% plus to more than 10%.

"The U.S. is at the center of an increasing internationalization of the world economy," declares Geoffrey Moore, Columbia University's highly respected business-cycle guru. "Deregulation of the financial markets, especially, has speeded up the process."

> ***"The growing importance of the service industries adds two-to-three months to expansions and cuts recessions two-to-three months"***
>
> **—Geoffrey Moore**
> **Columbia University**

Offsetting the obvious pluses of growing global integration—like opening up new markets for American goods—are its growth-dampening effects on the U.S. economy. As the American appetite for imported goods has grown, domestic output and employment have suffered. At the same time, more and more U.S. companies find themselves depending on fiercely competitive foreign markets for growth and profits.

The superstrong U.S. dollar of the early Eighties made it cheap for Americans to buy foreign goods and tough for U.S. exporters to sell abroad. The result: the largest trade shortfalls in U.S. history. President Lawrence Chimerine of Wharton Econometrics says, "The superdollar in the first half of the Eighties was an enormous economic shock that helped slow the expansion by intensifying foreign competition." Wharton estimates that trade deficits between 1983 and 1986 shaved nine percentage points from U.S. GNP growth and cost some two million American jobs.

Trade deficits, however, have not been all bad for the U.S. Greater foreign competition has also helped keep U.S. inflation under control. Explains

CHARTS BY NINA WALLACE

David Hale, chief economist for Kemper Financial Services: "Because U.S. consumers could buy foreign goods cheaply, heavy domestic demand has not produced the bottlenecks in U.S. production that in past expansions generated excessive inflation and eventually cut the expansions short." Adds Paul Samuelson, "The open U.S. economy has acted as an inflation safety valve." The price: slow growth.

POLICIES AT CROSS-PURPOSES

Without question, the increasing integration of the world economy has reduced the impact of U.S. economic policy, both at home and abroad. And this too has had a dampening effect.

Gone are the days when the U.S. was the main locomotive and could push and pull the rest of the world economy at will. Vivid evidence of the change is Treasury Secretary James Baker III's dogged crusade for greater coordination of economic policies—particularly his intense pressuring of Japan and West Germany to adopt more stimulative policies. Washington can no longer determine the outcome through its own policies alone; today it needs help.

During the current expansion, the fiscal (as opposed to monetary) policies of the Big Three have often worked at cross-purposes. At the same time the U.S. was cutting taxes and running up huge budget deficits, economically conservative governments in Europe and Japan were following very restrictive budgetary programs designed to prevent a rekindling of inflation.

Budget deficits in West Germany and Japan fell from 3.5% of GNP in 1982 to just 1% last year, according to DRI. Both governments, remembering the cruel inflation of the 1970s, have been reluctant to underwrite growth through tax cuts and spending increases.

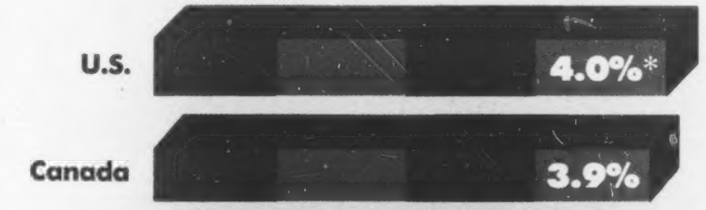
With Japan's GNP growth flagging badly for a second straight year, however, Tokyo recently announced plans to inject $42 billion into its economy. But the Germans are still holding back. Politicians in Bonn remember the last time Germany attempted to boost the economy with modest tax cuts—in 1978, just before the Iran oil shock of 1979 ran inflation into double digits throughout the industrialized world. West Germany's own inflation, exaggerated by the untimely tax cuts as well oil dependency, led directly to a traumatic current account deficit, a crumbling Deutschemark, a deep recession and, eventually, the downfall of Helmut Schmidt's government.

The growth-cramping fiscal policies in Europe and Japan have contrasted sharply with Washington's tax-cutting and lavish budget shortfalls. The U.S. budget deficit rose from 4.5% of GNP in 1982 to as high as 6.5% and still stands around 5% today. But much of the stimulative impact on the U.S. economy was diverted into American buying of a rising tide of imports from across the oceans. Thus, the Reagan Administration and U.S. Congress gave the European and Japanese economies a big lift that they weren't getting from their own governments.

"West Germany and Japan could not have cut their budget deficits so much without the global stimulus of the big U.S. budget deficits," explains Roger Brinner, senior vice president for DRI. "They got a free ride that cost this country between $50 billion and $90 billion on the trade accounts by 1986."

THE U.S. ECONOMY: THE GROWTH LEADER

Despite the country's mammoth budget and trade deficits, the growth rate of the U.S. economy has led the industrialized world.



Annual average increase in gross domestic product in 1982 dollars. Source: Wharton Econometrics Inc.

Had other major nations followed the U.S. policy line, worldwide economic growth would have been much stronger; because they didn't, growth has been much more modest but also less inflationary.

What kept Washington's spendthrift fiscal policy from spurring an economic boom was Federal Reserve Board Chairman Paul Volcker's passion for controlling inflation. His tough monetary policy starting in 1979 had broken the runaway inflation of the late 1970s and early 1980s. Then, his focus shifted to reviving growth without fostering a boom. "Early in the decade the Fed took responsibility for dampening inflation and pushing the economy into recession," explains Columbia's Geoffrey Moore. "Since then it has provided just enough money to keep the economy going. If the Fed had wanted a boom, it could have pumped out enough money to get one, but it didn't."

Abroad, West German and Japanese central bankers have stayed in step with Volcker's monetary policy in the past couple of years. Big U.S. trade deficits and the superstrong dollar forced them to cooperate. Fear that steadily growing U.S. deficits would prompt Congress to erect trade barriers, for example, was the major reason that Secretary Baker could persuade the G-5 countries at their first meeting in 1985 to knock down the dollar. What followed were coordinated efforts by the central banks of the U.S., Japan and West Germany to bring interest rates into better balance and lower the dollar substantially. The ultimate effect, only recently evident, was to begin lowering the U.S. trade deficit—and to add months, or even years, to the current economic upswing.

MICROECONOMIC SIDE EFFECTS

If the slow-growth, low-inflation expansion sounds smooth and almost boring, perish the thought. It has been marked by unprecedented booms in some sectors (notably technology and financial services), busts in others (energy and agriculture), and sweeping restructurings in maturing basic industries (autos, metals, chemicals) that have been more revolutionary than evolutionary. "Examine the statistics in detail, and it's clear that this is the patchiest upswing ever," says Robin Marshall, chief economist at Chase Manhattan Ltd., the London subsidiary of the U.S. banking giant. "At the same time, many industries are following their own unique business cycles, which often as not don't reflect the performance of the economy as a whole. It's as if the economy had taken on a dual personality," he adds.

Other contradictions illustrate the seemingly schizophrenic behavior of the industrialized economies in the Eighties: nations achieving only modest increases in output despite substantial productivity improvements; industries shedding labor while others are unable to find enough skilled workers; record new business start-ups uncannily juxtaposed with a continued high level of corporate bankruptcies.

The sea change from the hyperinflation of the 1970s to the disinflationary environment of the 1980s is probably the biggest single reason for the turbulence within individual industries and the apparently contradictory trends. This historic shift in the world's economic direction was engineered by the tightfisted policies of the Volcker Fed and the German and Japanese central banks, which plunged the world economy into the 1981-82 recession and drove weak industries and companies up against the wall.

Not all industries were affected in the same way or at the same time. Sectors that benefited from the high inflation (including energy and real estate), or had built up substantial inflation hedges on the assumption that high inflation would last well into the Eighties, got clobbered. This explains why U.S. banks, heavy in energy and real estate loans, suffered a rash of insolvencies in the early part of the recovery and are still writing down problem loans by the billions. Also hurt were the mining, agricultural and smokestack industries, which were hard-pressed to service heavy debt and make much-needed capital improve-

PRESIDENTS' PANEL: CEO'S WORRY ABOUT INFLATION, NOT RECESSION

With the economic expansion about to break the peacetime record of 58 months, set back in 1975–80, you would expect to find business executives worried about a slump. But not the top executives on the Business Month Presidents' Panel. Our latest quarterly survey of CEOs at 200 of the largest U.S. corporations shows that America's business leaders fear renewed inflation far more than a slowdown or a recession.

By their own admission, however, business executives are also part of the inflation problem. Quite a few panelists report that because suppliers have raised prices, they in turn have raised their own selling prices to reflect the cost increases. In many instances, panel members say, the depressed dollar is the culprit, pushing up the cost of imported raw materials and supplies for U.S. producers.

"We have modestly increased the price of many of our products due to higher raw material and labor costs," says Martin Davis, president of Gulf & Western, in a typical response to our latest survey. "Higher oil prices and a weaker dollar," says Thomas Russell, president of Federal Mogul, are pushing up the costs of what the company buys. "Our raw materials such as copper, tin, steel, teflon—all world-price items are rising," he notes.

Other CEOs report that some U.S. companies, even without the justification of cost increases, are taking advantage of a price umbrella provided by foreign competitors to fatten profit margins through price hikes. With the weak dollar forcing foreign competitors to raise prices, explains

President J. C. Cotting of Navistar, "some U.S. manufacturers are taking advantage of the situation to raise prices instead of increasing U.S. competitiveness."

Price hikes are possible too, CEOs note, as the general economic environment is riper. "We have found no resistance in the marketplace to price increases," says Gulf & Western's Davis.

But if business is good, it is not great. That's the consensus across industry lines. It is also the climate most of the CEOs expect for their businesses and the economy over the balance of this year and in 1988. Almost all see the expansion continuing, not sinking into recession. But most forecast continued growth at the same sluggish pace of the past couple years. Says the CEO of one diversified company: "The improvement in the trade balance will prop up the industrial economy."

A handful, however, does look for next year to be much better than 1987, at least in their particular industries. This is the view of Federal Mogul's Russell. "Fifty percent of our business is in the automotive aftermarket, which will see an upturn in 1988 due to an increase in the number of vehicles in the six-to-ten year category, including the Japanese models," he explains. "We see improved demand for trucks because of the growth in industrial production," predicts Navistar's Cotting.

"Scott Paper's outlook for next year is strong," says company President P. E. Lippencott. Like many other forest products outfits, he says, Scott will begin to reap the benefits of recently completed capital investment projects that have aimed at cutting costs even as they boost the volume of production.

None of the Panel members expects a recession this year. "We believe recession, which is two consecutive quarters of negative growth, is unlikely," predicts Lippencott. "Recessions normally follow a period of high inflation and high growth. They are a reaction to an overheated economy. This hasn't happened." Adds Federal Mogul's Russell: "A recession is politically not acceptable the year before a presidential election."

But most executives would rather face the possibility of recession than operate in an economic expansion kept alive by rising government spending or by slashing interest rates. Says one top executive: "Any attempt to head off a recession by beefing up government spending will be very foolish with the revenue and deficit problem out of hand. The idea that we can have a permanent booming economy occurs only in fairy tales and congressional campaigns."

Almost all of the respondents rated President Reagan's overall economic performance as "good." The majority credit Reagan with getting inflation under control. They feel the President has kept the economy growing, furthered deregulation and cut taxes. But an equally large number believe Reagan has done a poor job in controlling government spending and shrinking the budget deficit. Sums up one CEO: "The President's greatest economic failure is the inability to fashion a working arrangement with Congress on a reasonable basis and to control spending."

Tax reform gets mixed reviews. Most executives say that it has not hurt their overall business, but it has made them reluctant to invest in new plant and equipment. "Loss of investment tax credits, the stretch-out of depreciation lives, and the partial loss of interest deductibility work to raise the cost of capital and lower investment returns," argues the president of a large oil company. Adds Scott Paper's Lippencott: "As the new law continues to phase in during 1987 and 1988, our tax rate will decline from 46% to 34%, but this decline will not fully compensate for the loss of the investment tax credit and the increase in the capital-gains tax."

Restoring incentives for capital formation such as the ITC or lower capital-gains taxes would, of course, cost the Treasury billions in lost tax revenues. BUSINESS MONTH asked executives what kind of tax increases would be acceptable to make up for the revenue lost if capital spending incentives were restored. Surprisingly, most executives supported a value-added tax, an idea that has received only scant attention in Washington in the past. "A value-added tax would retain [investment] incentives and solve the [revenue] problem," says Duane R. Kullberg, CEO of Arthur Andersen & Co. Federal Mogul's Russell agrees: "A VAT tax is a better method of collecting the cost of government to the general public, and it leaves profits to be used in capital formation."

In general, CEOs favor raising consumption taxes rather than personal income taxes. A tax on imported oil was the second-most-favored means of raising revenues to replace those lost if capital incentives were restored. "A consumption-type tax should provide the revenues for restoring incentives for capital formation," says the president of a major oil company. CEOs, however, don't appear anxious to mount a campaign to restore capital investment incentives. Most go along with the view of Navistar's Cotting, who doesn't "favor near-term changes in the tax law." —E.M.

ments in the fiercely competitive, slow-growth environment that followed the recession.

Unlike previous business cycles, disinflation this time is clearly a long-term phenomenon. In Japan, West Germany and other industrialized countries, prices have not risen at all so far this year. The notable exception is the U.S., where the rate of inflation is expected to rise from 2.1% in 1986 to 4% this year. But it is not likely to rise much higher, says the forecasting consensus. In fact, some seers believe U.S. inflation will drop back to an average 3% for the rest of 1987.

Battered by the slow-growth environment, as well as by technological obsolesence and rising competition from developing nations, the industrial dinosaurs of the U.S. and the rest of the OECD have been forced to replace their old capital stock with new high-tech equipment. In some industries—most noticeably the smokestack sector—the process has been accompanied by massive reorganizations of product lines and balance sheets. This has often reduced output and made companies much smaller, but also more efficient and profitable.

From autos and steel to chemicals and forest products, aging companies once headed for the graveyard have begun to revive themselves. Some won't make it in the end, but many will.

Less alert companies and those in the most deeply troubled industries have needed more time to restructure. That is why it has taken almost five years for some traditionally cyclical industries to begin to enjoy the economic upcycle, and why the expansion has such a Jekyll-and-Hyde look—with some prospering and others going broke. It is also one more reason for the slow pace and stretched-out duration of the recovery.

Still another expansion-prolonging force is the long, gradual rise of the service sector in the U.S. and global economies. Explains Columbia's Moore: "Growth in the service industries doesn't decline as it does in manufacturing; it only slows down. That is partly because service industries, with the exception of retailing, don't build up inventories. The growing importance of the service industries in the U.S. economy adds about two-to-three months to expansions and cuts recessions by two-to-three months."

"If Japan and Germany don't grow fast enough, the U.S. expansion could be in deep trouble"

—David Hale
Kemper Financial Services

DRI's Brinner also believes that scattershot government policies in the U.S. and abroad has added to the sectoral turbulence and helped keep world economic growth low in the Eighties. "This expansion has not been a continuous flow, but a series of small economic waves," he says, from the early Reagan tax cuts and the Gramm-Rudman-Hollings budget-cutting act in the U.S. to the Yamani-inspired oil price war and the restrictive budget policies in West Germany and Japan. "It is as if the governments were sitting in a big bathtub and making a splash and just watching the waves," Brinner adds. "It's just luck that these radical policy shifts, which often worked in opposite directions, seemed to cancel each other out and that the U.S. has been able to sustain even 2.5% growth."

Most economists believe that the present sluggish expansion is the best scenario anyone could hope for at this time. Looking on the bright side, they say that as there is little chance of industrialized economies overheating, inflation can be kept firmly under control and the recovery sustained far longer than would otherwise be the case. Says Tomohisa Niimi, a business-cycle specialist at Japan's University of Kyoto: "Because the U.S. and other economies are growing so modestly, it is only natural that it will take longer to run into the capacity constraints and inflationary pressures that generally herald the approach of a downswing."

On the downside, continued slow growth—even if inflation-free—will not be enough to cut record-high unemployment in Europe, to correct the huge U.S. payments imbalances or to solve the Third World's towering debt problems. Economists and bankers are also edgy about the mountains of consumer and corporate debt built up in the U.S. during the current expansion. Some worry that this could presage an inflationary outburst like that of the Seventies. Others fear that there is no way the debt can be paid off in a slow-growth world economy.

Still others worry that the huge increase in stock and bond market values since 1982 is not backed by solid economic growth. "Every major stock market in the world has been pushed to all-time highs by the enormous creation of money and credit in recent years," says Paul Samuelson. "It will be a miracle if Tokyo, or even London or New York, doesn't get hit with a bad break in stock prices."

Other economists fret that consumer spending is now tailing off in Europe and the U.S., that capital investment is weak worldwide, that the U.S. government is in no position to stimulate greater growth because of its huge budget deficits. There are concerns too that the lower, but stabilizing, dollar may not boost U.S. exports and growth by very much. "If the other two locomotives [Japan and West Germany] don't grow fast enough, the trade deficit will not shrink quickly enough, and the U.S. expansion could be in deep trouble," maintains Kemper's David Hale.

Small wonder, then, that few business executives are uncorking the bubbly as the global expansion approaches its fifth anniversary. Yet this much is worth celebrating: The industrialized world is much better off than it was ten years ago when OPEC was calling the tune and inflation was raging out of control.

Cheers. ■

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INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(6/30/87) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$30.50/share	$10,502	$12,464
per cent change		+5.0%	+24.6%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$125.50	$ 9,975	$ 9,194
ACCUMULATED INCOME		$ 78	$ 861
TOTAL		$10,053	$10,055
per cent change		+.5%	+.6%
Money Market Fund	6.01%	$10,049	$10,569
per cent change		+.5%	+5.7%
Gold (Krugerrands)	$453.80/oz.	$ 9,985	$13,040
per cent change		–.2%	+30.4%

HOUSE PRICES	Recent	Month Earlier	Year Earlier
Existing House	$115,000	$120,000	$108,500
per cent change		–4.2%	+6.0%
New House	$129,500	$132,900	$122,100
per cent change		–2.6%	+6.1%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes, Inc.; Federal Home Loan Bank Board.

all-time highs, Straus is buying—in the belief that they can double within three years.

His favorite is LIN Broadcasting, a cellular franchise that also owns network television affiliates. The lack of cellular purity in LIN's case is offset by the fact that its TV activities are generating the cash flow to fund its cellular growth. LIN has teamed up with Metromedia and may one day buy out its partner's cellular franchises. But Straus also likes Affiliated Publications, which owns the *Boston Globe* as well as cellular operations.

His choicest pure plays are Cellular Communications and Metro Mobile CTS, both of which are losing money now but could, Straus believes, report earnings as early as 1988. American Cellular Network Corp. is another intriguing company that has a New Jersey franchise, including the heavily traveled corridor surrounding New York City. To carry on a conversation on a car telephone while driving through New Jersey, the caller must use American Cellular's service.

As for basic industry cyclicals, Straus likes the aluminums best. "Aluminum is in the same position as paper stocks were last year," he says, with productive capacity and inventories cut to the bone. Straus believes the weaker dollar and an improving U.S. economy can lift aluminum prices from around 70 cents to at least 80 cents a pound. This, in turn, could boost shares of Reynolds Metals and AMAX by 50% and Alcoa by perhaps 30%.

Straus is also starting to buy financial stocks after avoiding the sector for the past year; a large correction and low relative multiples have won him over. His top pick: the newly traded shares of Shearson Lehman Brothers, which he calls "the best large brokerage firm" due to its good mix of retail and institutional businesses. He is also buying bank stocks, encouraged by their Third World loan write-offs. His main choices: Republic National Bank of New York, Citicorp and J.P. Morgan & Co. He's looking for a 25% move in bank shares during the next six months. —LEAH NATHANS

EXCLUSIVE: THE EXECUTIVE JOB MARKET

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BUSINESS MONTH

Feature Departments

WASHINGTON

How Wall Street Gets Its Way In Washington 22

By filling the campaign coffers of key legislators and courting staff, the investment bankers have kept the banks off their turf.

- **The Best and Worst Business Lobbies** 24

MANAGEMENT

Ethics Programs: Just a Pretty Face? 30

Concerned about their reputations, hundreds of big companies have rushed to set up formal ethics codes. But most are toothless, lacking oversight and enforcement.

- **GD Feels the Pain Of Change** 32

COMPANIES

The Watchful Eye Of Charlie Rice 34

Barnett Banks' dynamic CEO demands performance from his executives and gets it. Upshot: In a day when plain vanilla banking is supposed to be passé, Rice has made it work spectacularly.

EMPLOYEE BENEFITS

The Draconian Cuts in Mental Health 41

Historically, mental health has been underfunded by employers. Now, squeezed by rising health costs of all kinds, they are cutting back even more.

INDUSTRIES

Technology Transfer Isn't Working 44

The push is on to facilitate the transfer of government research to industry. But the obstacles are so numerous and deeply rooted that success seems doubtful.

ECONOMY

Capital Outlays: Business Is On The Hot Seat 50

The U.S. ranks last among the seven big industrial nations in share of GNP devoted to capital spending. With politicians pushing competitiveness, business will take the rap.

- **Global Rush to Kill Investment Incentives** 52

SPECIAL REPORT

The Executive Job Market 1987 58

Executive recruiters are gloomy, but it ain't necessarily so.

- **The Current Job Openings** 60

Business Month's fourteenth annual survey shows more than 1,100 executive job openings, with about one in ten paying $200,000 or more.

September 1987, Vol. 130, No. 3

34

Speaking Out 6
Former Congressional Budget Director Rudolph G. Penner on the budget deficit

Managers in The News 11
US Sprint's tough new president

Managing Information 73
Conversational computers are becoming a reality

Personal Finance 75
On Wall Street: Francois Sicart's Tocqueville Fund is betting on a U.S. manufacturing revival

Investment Update 76

The Business Month

WASHINGTON
- *Democrats corner Reagan* 13
- *Verity takes over at Commerce*
- *Superconductor push*
- *Congress gets tough on takeovers*

ECONOMY
- *Economists downplay inventory buildup* 14
- *Banner year for profits*
- *Inflation fears rekindled*

COMPANIES
- *More divestitures at GE?* 14
- *FCC plans to lift AT&T profit cap*
- *Sears' Discover card a bust*
- *What's Boone up to?*
- *IBM tackles software problems*
- *Merger Roundup*

MANAGEMENT
- *New poison pill wrinkle* 16
- *American CEOs keep getting richer*

INDUSTRIES
- *Automakers segment markets* 17
- *New luxury cars from Japan*

MONEY & MARKETS
- *Death to the triple witch* 17
- *Scandal spurs muni bond regulation*
- *Institutions down on GM, USX, others*
- *Wall Street seeks managers*
- *SEC to put teeth in insider definition*

LABOR
- *Air traffic controllers reorganize* 18

17

COVER PHOTOGRAPH BY CHERYL ROSSUM

Capital Outlays: Business Is On The Hot Seat

The finger is pointed squarely at business for not investing enough to meet foreign competition.

by Edward Mervosh

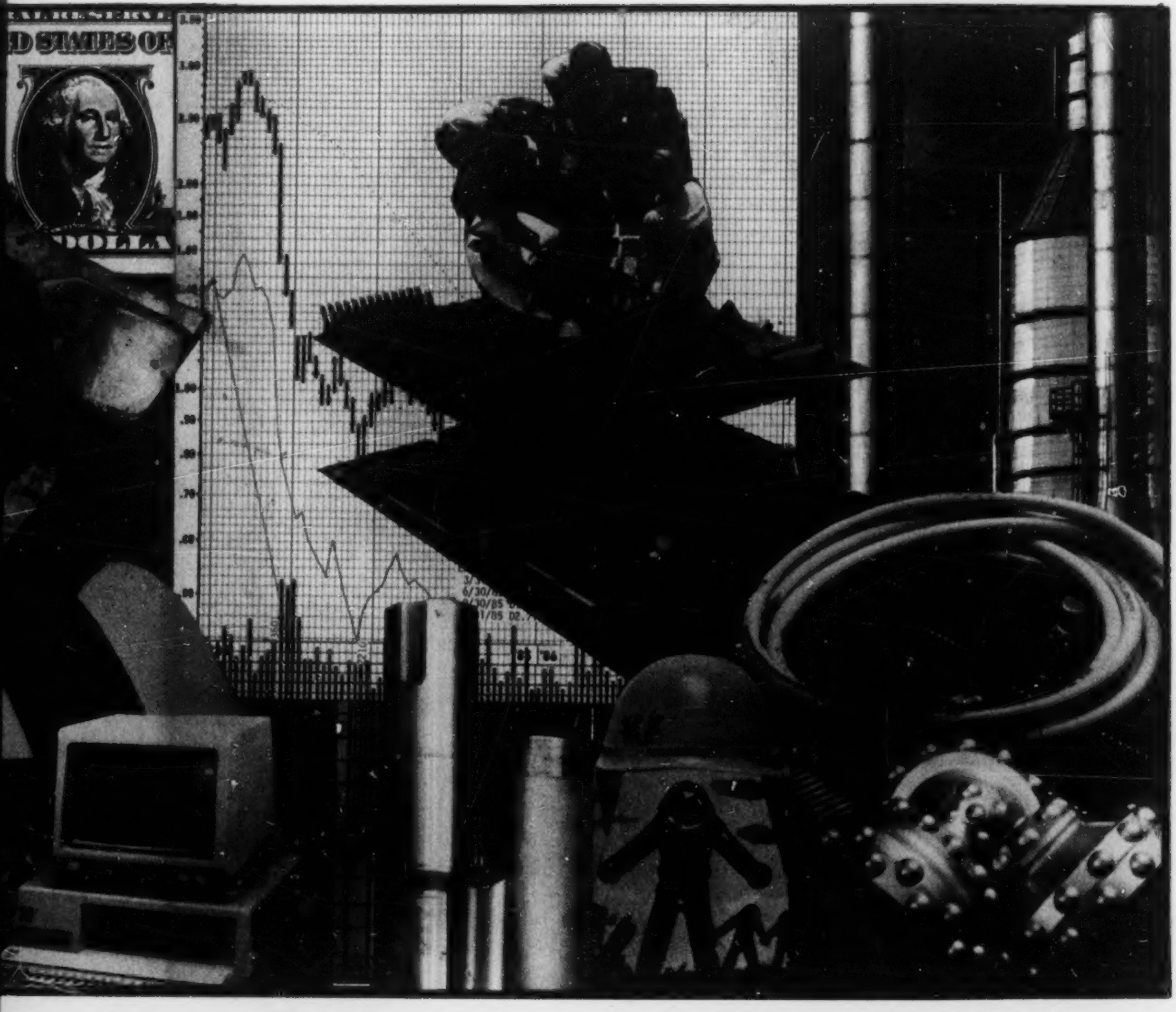
Ronald Reagan made rebuilding America's "competitiveness" a top national goal in his 1987 State of the Union message, and the herd of White House contenders has turned it into a national crusade. With the first presidential primary now five months away, the search for the villain responsible for the decline in the nation's economic prowess is intensifying rapidly. Sitting squarely in the hot seat is corporate America.

Business will be blamed for its failure to make the capital investment necessary to meet the competitive threat from overseas. The focal point will be the lagging productivity of U.S. industry vis-à-vis Japan and Germany. "A more realistic alignment of the dollar can't by itself restore U.S. competitiveness," says Eaton Corp. economist Adrian Dillon. "We also have to revive capital and labor productivity."

At a time when the trade deficits have been setting records each year and the U.S. share of such major export markets as capital equipment, consumer durables and textiles has declined, business capital investment—the key to increased productivity—has been lackluster. The Commerce Department, in fact, recently revised downward its capital investment figures for the 1980s to an annual average increase of just 2.7% from 3.1%. Even during the inflation/recession-ravaged 1970s, capital outlays grew at an annual rate of 3.7%.

Capital investment has been sporadic as well as weak. Business spending on new plant and equipment boomed in the early years of the current expansion, fired by the massive tax cuts of 1981. In 1985, however, capital spending slowed sharply and last year actually declined by 2.3%, according to the Commerce Department. Business intends to spend more this year, say most recent surveys. But even if those plans are fulfilled, and many economists doubt they will be, outlays will rise by only about 1% after inflation.

Among the seven big industrial nations, the U.S. ranks last in the share of GNP devoted to capital spending *(chart, page 54)*. If the nation is to regain its competitive edge, more of the



country's resources must be channeled into new plant and equipment. Says William C. Freund, chairman of the Graduate Business School of Pace University: "If the gross business investment to GNP ratio could be raised by approximately one percentage point . . . productivity could be raised by at least one-third of a percentage point."

Right now, the amount of resources devoted to capital spending is shrinking. In the first half of 1987, business fixed investment as a percent of GNP dropped to 9.7% from 10.5% the previous year, according to Data Resources Inc. This is the lowest level since 1964. "You expect that kind of capital investment figure only in recessions," notes DRI Vice President Christopher Caton.

Given the low level of investment, it is hardly surprising that the amount of plant and equipment in place (what economists call capital stock) has been growing at a painfully slow pace. Manufacturing capital stock grew at just 0.9% annually from 1982–86, compared with 3.4% from 1970–83. Says Freund: "Net investment—spending that increases capacity because it is more than just replacement investment—is still seriously lagging."

At the same time, not surprisingly, the nation's plant and equipment is older than that of competing countries. In the mid-1980s, U.S. equipment was eight years old on average and growing older faster, while in Japan the average was only six years and aging very slowly, according to a Conference Board study. Perhaps more ominous, the capital stock of newly industrialized countries such as South Korea, Brazil and Taiwan is estimated to be even younger than Japan's.

Moreover, too many industries on which the nation depends to reverse the trade deficit—industrial materials, capital equipment and computers, which account for 50% of U.S. exports—are investment laggards. Some even seem to have thrown in the towel: spending by producers of machinery, iron and steel, engines and agricultural goods has been declining.

Weak capital spending is especially

ILLUSTRATION BY JOAN HALL

curious in an era of booming stock prices. If stocks rise enough to boost the market value of a company's assets above the cost of replacing them, according to Nobel Laureate economist James Tobin of Yale, it should be a great incentive to invest more. Reason: The cost of capital is low relative to the rate of return on the investment. "It is rather a mystery why capital spending hasn't performed better, given the long boom in the market," says Wall Street guru Henry Kaufman, a senior partner at Salomon Brothers.

It's not just that business isn't investing enough; many economists argue that it has also been spending on the wrong things. For example, billions have been poured into office buildings that are standing empty. And while investment in new equipment has actually been rising rapidly in recent years, too much of it has gone into short-lived equipment such as computers and trucks. Explains economist Dale Jorgenson of Harvard University: "Business has been investing too much in office buildings and less productive, short-lived equipment because of tax benefits, not because it was the most productive use of capital."

Broad-brush statistics, of course, do an injustice to the many companies that have worked hard to become more competitive. Computers, telecommunications and some parts of the chemical industry, such as plastics, have been spending robustly in recent years *(table, page 52)*. Others have upped their outlays, but not enough. For example, investment in autos and aerospace grew at an annual rate of more than 4% between 1982 and 1986, but both industries are still losing market share to foreign firms.

Business can argue that a string of unexpected events, such as the collapse of oil prices and near-depression in the computer industry, caused a pullback in investment during the past two years and made its long-term record look worse. On top of that, wild gyrations in federal tax policy played havoc with business investment plans for most of the 1980s.

In 1981 Congress went beyond even President Reagan's demands for corporate tax cuts. But in 1982 and again in 1984, business taxes were hiked. Then during the tax reform debate of 1985–86, Congress deliberated over the elimination of the investment credit, tightened depreciation allowances and a higher capital-gains tax. "For two years," says Eaton's Dillon, "business had to plan capital spending in an environment of enormous uncertainty." Adds Freund: "Tax policy in Japan is well coordinated with broad economic objectives. Moreover, it is unaltered over long periods of time, which allows industry to optimize its investment plans."

Tax reform has been in effect only eight months; it is too early to assess the impact on capital outlays of killing off the investment credit and the stretch-out of depreciation schedules. Capital investment did slump in the first quarter but recovered smartly in

SPENDING FOR NEW EQUIPMENT: THE DREARY RECORD

(average annual increase in equipment outlays, 1982-86)

Chemicals, metal products and other industrial materials along with capital equipment and computers account for 50% of U.S. exports. Capital spending by most of these industries has been declining or, at best, growing modestly.

Industry	
Computers	+ 11.0%
Rubber & Plastic	+ 9.3%
Communications	+ 9.2%
Chemicals	+ 6.3%
Aerospace	+ 4.5%
Motor Vehicles	+ 4.3%
Nonferrous Metals	+ 3.1%
Metal Products	+ .7%
Engines & Turbines	– .6%
Machinery	– 3.2%
Iron & Steel	– 5.5%
Agricultural Machinery	– 9.0%
Agriculture	– 10.3%
Crude Oil & Gas	– 15.5%

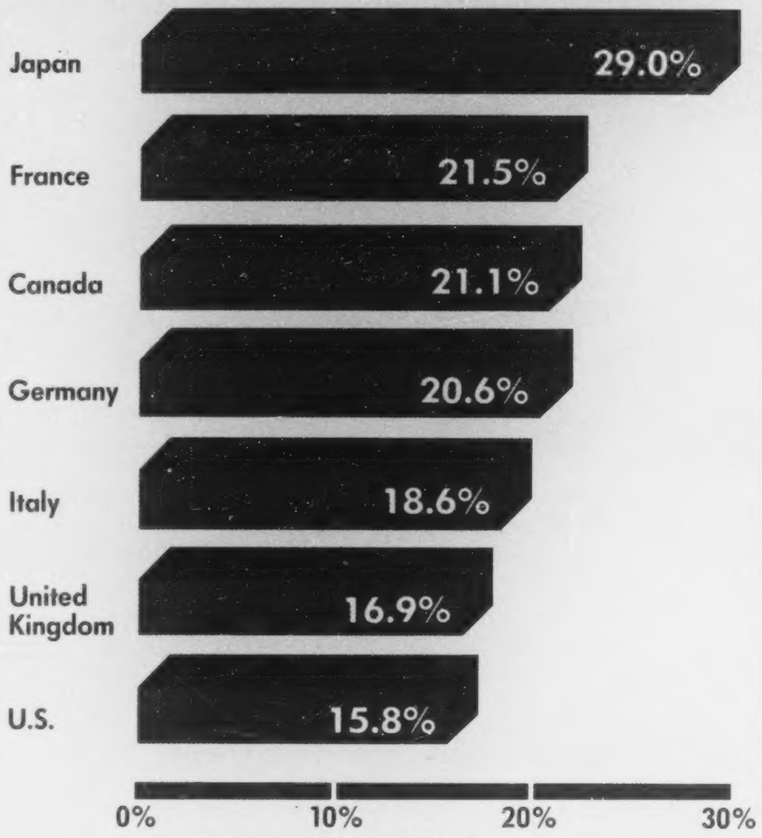
Source: Wharton Econometrics, Inc.

GLOBAL RUSH TO KILL INVESTMENT INCENTIVES

Margaret Thatcher's Conservative government scrapped Britain's 100% investment tax credit long before the Reagan Administration eliminated the ITC in last year's tax bill. Nigel Lawson, her pugnacious Chancellor of the Exchequer, slipped the potentially explosive measure through Parliament as part of his 1984 budget package with hardly any fanfare—by shrewdly eliminating the capital allowances in gradual stages over two and a half years and cutting the corporate tax rate from 45% to 35%. But three years later, with U.K. allowances completely gone, the screams of outraged British manufacturers are louder than those of U.S. counterparts, whose ITC loss is much more recent. They and others wonder if the slow growth global economy of the 1980s can get along without tax incentives to stimulate investments.

"Tell your American readers that the removal of incentives has knocked our investment plans for six," says a top executive at state-owned British Steel. "Tell them that we're going to lose ground against our overseas competitors as a result. And tell them that they are going to suffer the same fate because of their recent tax changes."

The elimination of investment tax breaks has in fact gained global momentum, even as brows furrow over the sluggish economic growth. Right-of-center governments in both France and West Germany have slated capital allowances for the chopping block. Similar moves are afoot in Canada, Japan, Australia and the Scandinavian countries. In a low-keyed way both the European Commission



U.S. CAPITAL SPENDING: LAST AMONG THE BIG INDUSTRIAL NATIONS

(private fixed investment as a percent of Gross National Product)*

*Average annual rate 1980-86

Source: Data Resources, Inc.

the second, according to preliminary figures. But the continued shrinking of capital investment as a share of GNP worries some economists, who believe that tax reform is the culprit. "The slide in investment this year suggests that on balance reform has increased the tax burden for business," says Harvard's Jorgenson.

Huge federal deficits have also been a drag on investment. For most of this decade, Washington's rivers of red ink have helped push interest rates much higher than they would have been otherwise. High interest rates, of course, raise the cost of financing capital investment and offer attractive alternative investment opportunities. "Business has faced an enormous amount of uncertainty in this decade, which helps explain why so much money has been poured into high-yielding financial assets rather than physical assets," maintains Jerry Jordan, chief economist for First Interstate Bancorp. Adds Jorgenson: "The cost of capital in the U.S. is much higher than in other countries, and high interest rates caused by mammoth budget deficits are a big reason."

The economy of the 1980s has also put a damper on capital investment. The decade began with one of the worst recessions in the postwar period. Growth has only averaged about 2.5% in the 1980s, compared with about 3.5%-to-4% in the 1960s and 1970s. "So long as growth is weak, business will be reluctant to invest heavily," says Lawrence Chimerine, president of Wharton Econometrics Inc.

But these defenses aren't persuasive because Japan and West Germany have also been subject to the same economic uncertainties, yet their capital investment has far outpaced that of the U.S. Many economists argue that the slide in the U.S. position began at least fifteen years ago and that business is now using the economic uncertainties of the 1980s as an excuse for its inaction. "Why did it take us so long to catch on to the competitive threat from Japan?" asks Chimerine. "You have to say that it was in part simply [management] complacency."

Complacency, of course, is usually bred by lack of competition. For twenty years after World War II, the U.S. economy dominated the world and American business began to believe that its preeminence was permanent. Such attitudes are hard to shake, even when the reality has changed.

In the early twentieth century, the British also believed that their economic superiority was invincible and that others could do most of the grubbier aspects of manufacturing. Their long decline set in soon after. "In the U.S.," observes David Hale, chief economist of Kemper Financial Services, Inc., "there seems to be a growing preference for management jobs that aren't related directly to producing anything. Much like the British, business seems to have adopted a cultural aversion to manufacturing."

Whatever the reason for business' reluctance to invest, the dollar's fall puts U.S. corporations in a strong position to fight back. And next year should tell whether business is willing to go to the mat with its archrivals overseas. But if the trade deficit doesn't show much improvement and the pace of capital spending doesn't pick up, the old complaints of an overstrong dollar, an overpriced and unproductive workforce and an intrusive government simply won't wash anymore. The fallout could be a sharp reversal of the pro-business climate of the Reagan years. ■

THE EXECUTIVE JOB market 1987

Searches are down, and recruiters are singing the blues. But there are some big jobs at fat salaries out there.

by John C. Perham

Is this a lousy time to look for a job? Listen to the executive recruiters and you would think so. Headhunters are by nature optimistic, but even the most sanguine describe their business lately as "good but not great." Others call it flat, and some are downright gloomy. "Business is worse than last year, and last year wasn't good," says William Stack, who heads his own New York-based search firm.

Backing up this pessimistic assessment, the Association of Executive Search Consultants says its seventy member firms initiated 7.8% fewer searches in the quarter ended June 30 than in the comparable period a year ago. Some industries that had expanded last year showed the biggest drops: Utilities declined 39%, hospital and health care 36%, data processing 35%, and chemicals and fibers 33%.

But for once, the recruiters are painting a blacker picture than the job market deserves. The fact is, they are facing stiff competition this year and are therefore less representative than usual.

There are bright spots for executive job seekers in the overall picture. Most conspicuously, the number of searches for higher-level executives is on the rise—an upturn that reflects the thinning of the middle-management ranks. Companies are looking for top executives who can fill two or three jobs once delegated to others and who can run the combined operations of several divisions that used to be separate. "Executive search has become increasingly selective, with emphasis on the higher echelons and on very specific needs," says Robert L. Smith, AESC cochairman.

For jobs paying $200,000 and up,

ILLUSTRATION BY JAVIER ROMERO

even the AESC figures show there were 9% more searches than a year ago in the quarter ended June 30 and 32% more than in the first quarter of 1987. And in the fourteenth annual BUSINESS MONTH survey of executive job openings beginning on page 60, around 10% of the more than 1,100 jobs listed pay $200,000 and up.

New York-based recruiter Battalia Associates is trying to find a vice president of marketing who will double as a vice president of sales, as well as an executive who will handle both recruiting and management development. Dale Winston of Battalia is also looking for a director of accounting who will do internal and external reporting, auditing and pinch-hitting for a divisional controller—responsibilities that are usually split three or four ways. "I'm tearing my hair out trying to find someone qualified," she says.

Adding to the demand, some companies that cut too deeply now find themselves without entire layers of management from which to promote. Partner John Callen of New York-based Ward Howell International says he knows of several companies that recently had to fill high-level positions from outside because they had virtually eliminated the management layer just below. Another recruiter predicts a similar sequence of events at Anchor Hocking Corp., where 100 executives, or half the corporate staff, were fired after this year's takeover by Newell Co.

AT&T, which cut 14,000 people earlier this year, is hiring managers again, as are the independent Bell regional operating companies. E.I. du Pont, which lost 10,000 employees, twice as many as it planned when it opened a retirement window in 1985, is seeking new managers. And with the price of oil back up above $20 a barrel, "the energy companies are looking for senior executives and even for acquisition experts," says Paul R. Ray Jr., a Fort Worth recruiter.

A number of trends in the executive job market are evident in BUSINESS MONTH's current survey of job openings. Compiled in cooperation with twenty leading search firms, the list is being published two months earlier than in past years in order to give job seekers access to a seasonally bigger market. It is therefore not comparable to past lists.

The most active industry in the job market is still financial services. Wall Street's already sky-high salaries are headed toward the stratosphere. Last year brokerage houses were offering top institutional salesmen $500,000-to-$1 million in salary and bonus; this year they are dangling offers of 25%-to-30% more, says Partner Roger Kenny of New York-based Kenny, Kindler & Hunt. Reflecting this demand, our current job list includes 366 openings for financial executives and managers, about one-third of the total.

How long will the trend continue? Roger Staub, another New York recruiter, expects a shakeout or leveling off in demand for financial executives in a year or so.

The upturn in smokestack America, reported here last November, is still gaining steam. In fact, President Allan Stern of New York's Haskell & Stern predicts that heavy manufacturing will attract more executives than the service industries in the next few years.

Demand for research scientists and financial executives is rising in the drug industry as manufacturers compete to develop blockbuster drugs. The pressure could intensify. One recruiter close to General Electric Co. confides: "What GE wants to do most with all the cash it has accumulated lately is to buy a drug company."

Companies are bypassing the recruiters in searching for executive talent.

Meanwhile, the recruiters are feeling the hot breath of competition from several quarters. For one thing, with so many executives on the beach, many companies are bypassing recruiters in their search for talent.

Besides that, a number of downsizing companies are taking responsibility on their own to help place the employees they lay off. When Owens-Corning Fiberglas Co. closed several facilities last November, it found new jobs for more than 300 of 375 managers. And in March, Owens-Illinois Corp. placed 200 departing employees in new jobs.

Outplacement firms also provide new competition for the headhunters. Once largely dispensers of hand-holding and advice, outplacers now seek out new jobs for fired executives. "The outplacement firms are getting really good," says William Billington, a Chicago recruiter. "They give job seekers all the library facilities they can use and help them produce a good-looking resume, which they send directly to companies that may be interested."

Then there are the so-called "contingency recruiters," who are paid only if their candidates are hired. Once they specialized in $40,000-to-$60,000 jobs, says Stern. Now they are taking over the $60,000-to-$80,000 market, which Stern still considers the bread and butter of the search business.

Even fired executives are competing with the search firms. A number of them have become recruiters in their own areas of expertise.

So don't put too much stock in those gloomy AESC figures. It ain't necessarily so. And there is at least one more bright spot in the great middle-management bloodletting. "It is no longer a negative for a job seeker to have been fired," says Chairman Carl Menk of New York-based Canny, Bowen, Inc. "There are just too many good managers in that predicament right now." ■

THE CURRENT JOB OPENINGS

GENERAL MANAGEMENT

Chief Executive Officer

POSITION	INDUSTRY	LOCATION	SALARY
	Health Care	Northeast	$500,000
President	Consumer Products	West	500,000
President	Entertainment	West	400,000
President	Health Care	South	400,000
President	Pharmaceuticals	East	340,000
	Conglomerate	East	310,000
President	Reinsurance	Northeast	300,000
President	Transportation	West	290,000
	Manufacturing	Southeast	290,000
President	Insurance	Southeast	260,000
President	Energy	Southwest	260,000
President	Aerospace	East	260,000
President	Manufacturing	Northeast	250,000
President	High Tech	Midwest	250,000
President	Electronics	East	230,000
President	Telecommunications	West	220,000
President	Computer	West	200,000
	Machinery	West	200,000
	Retail	Midwest	200,000
	Credit	West	200,000
	Transportation	West	200,000
President	Apparel	East	200,000
President	Aerospace	East	200,000
President	High Tech	West	200,000
President	Food	West	200,000
President	Electronics	East	200,000
President	Aerospace	West	200,000
President	High Tech	East	200,000
President	Manufacturing	Midwest	200,000
	High Tech	West	190,000
President	Food	East	190,000
President	Food	West	160,000
President	Manufacturing	East	160,000
President	Telecommunications	West	160,000
	Computer Software	Southwest	160,000
President	Machinery	East	160,000
	Business Services	Northeast	150,000
President	Electronics	Southeast	150,000
President	Health Care	West	150,000
President	Hospitality	West	150,000
President	Electronics	East	150,000
President	Manufacturing	East	145,000
President	Health Care	Midwest	145,000
President	Energy	Southwest	145,000
President	Metal Products	East	140,000
President	Energy	Southwest	140,000
President	Chemicals	Southwest	140,000
President	High Tech	West	140,000
President	Electronics	West	140,000
	Insurance	Northeast	135,000
	Entertainment	West	130,000
	Manufacturing	Northeast	125,000
	Food	West	$125,000
President	Computer Software	Southeast	122,000
President	Health Care	Midwest	120,000
	Real Estate	East	120,000
	Chemicals	West	120,000
President	Health Care	Southwest	110,000
President	Insurance	Midwest	110,000
President	High Tech	West	110,000
President	Building Products	West	100,000
President	Computer Software	Midwest	100,000
	Electronics	Southeast	100,000
	Plastics	Northeast	100,000
President	Energy	Southwest	90,000

Chairman

POSITION	INDUSTRY	LOCATION	SALARY
	Conglomerate	East	780,000
Vice Chairman	Chemicals	Northeast	270,000
	Gypsum/Wallboard	Southwest	150,000

President

POSITION	INDUSTRY	LOCATION	SALARY
	Consumer Products	East	500,000
COO	Consumer Products	West	500,000
Insurance	Real Estate	East	400,000
Division	Consumer Products	East	350,000
COO	Apparel	East	340,000
Division	Manufacturing	Northeast	300,000
	Consumer Products	Northeast	300,000
COO	Retailing	Northeast	300,000
	Health Care	Northeast	300,000
International	Consumer Products	East	290,000
	Utility	South	275,000
	Food	West	260,000
COO	Business Services	East	250,000
	Credit	Midwest	250,000
COO	Manufacturing	Northeast	250,000
Division	Retail	Northeast	250,000
	Retail	Northeast	250,000
COO	Manufacturing	East	225,000
	Manufacturing	East	210,000
	Advertising	Northwest	200,000
	Apparel	Northeast	200,000
COO	Chemicals	Southeast	200,000
COO	Industrial Products	Midwest	200,000
COO	Insurance	East	200,000
COO	Publishing	Midwest	200,000
North America	Manufacturing	Northeast	200,000
COO	Insurance	Northeast	200,000
Division	Health Care	Northeast	200,000
COO	Real Estate	West	200,000
COO	Entertainment	West	200,000
COO	High Tech	East	200,000
	Communications	East	200,000
	Communications	West	200,000
	Hardware	South	200,000
	High Tech	East	200,000
	Technology	Midwest	200,000

POSITION	INDUSTRY	LOCATION	SALARY
	Engineering	Northeast	$175,000
COO	Hospitality	West	160,000
	Insurance	West	160,000
	Leisure	West	154,000
Division	Manufacturing	Midwest	150,000
	Conglomerate	Northwest	150,000
	Food Processing	Midwest	150,000
COO	High Tech	West	150,000
COO	Manufacturing	West	150,000
	Energy	Southwest	150,000
COO	Computer Software	East	150,000
COO	Computer Software	Midwest	150,000
North America	Food	Northeast	145,000
COO	Business Services	Midwest	140,000
COO	Health Care	East	140,000
COO	Electronics	Midwest	140,000
	Manufacturing	Midwest	140,000
COO	Industrial Products	Midwest	140,000
COO	Manufacturing	East	140,000
	Advertising	East	140,000
	Manufacturing	West	140,000
	Real Estate	Southeast	140,000
Division	Real Estate	West	140,000
COO	Credit Agency	West	125,000
	Insurance	West	125,000
	Manufacturing	Midwest	125,000
	Manufacturing	South	125,000
COO	Manufacturing	West	125,000
	Security Systems	West	125,000
	Manufacturing	Midwest	120,000
COO	Health Care	West	120,000
	Transportation	West	110,000
	Communications	Midwest	100,000
	Consumer Products	Northeast	100,000
COO	Machinery	Northeast	100,000
	Agriculture	Midwest	100,000
COO	Apparel	East	100,000
COO	Construction	Southeast	90,000
	High Tech	Northeast	90,000
COO	Chemicals	Northeast	75,000
COO	Apparel	East	75,000
Chief Operating Officer			
Executive VP	Entertainment	East	300,000
	Insurance	Northeast	250,000
	Mining	Southwest	250,000
	Health	Midwest	215,000
	Food	Midwest	175,000
	Insurance	East	100,000
Executive Vice President			
Operations	Real Estate	Midwest	400,000
	High Tech	West	400,000
	Energy	West	340,000
Group	Consumer Products	East	225,000
Group	Health Care	Southwest	225,000
Group	Electronics	East	200,000
Group	Food Services	East	200,000
	Entertainment	West	200,000
	Real Estate	Southwest	200,000
	Building Materials	Midwest	180,000
	Manufacturing	Midwest	150,000
Operations	Food	Midwest	150,000
	Engineering	South	145,000
	Health Care	Northeast	$140,000
	Real Estate	East	140,000
	Manufacturing	Midwest	120,000
	Retail	West	110,000
	Entertainment	West	90,000
	Building Materials	Southwest	75,000
	Health Care	Midwest	75,000
Senior Vice President			
	Electronics	Midwest	450,000
	Manufacturing	Northeast	250,000
	Insurance	East	200,000
Real Estate	Leisure	West	200,000
Construction	Real Estate	East	180,000
	Manufacturing	Midwest	150,000
	Real Estate	West	150,000
	Real Estate	East	150,000
	Data Communications	West	140,000
	Real Estate	West	140,000
Operations	Retail	East	140,000
	Computer Software	West	135,000
	Health Care	Midwest	110,000
	Equipment Rental	West	90,000
International	Manufacturing	East	80,000
Group Vice President			
	Chemicals	Northeast	150,000
	Food Service	Southwest	150,000
Vice President			
Shopping Center	Real Estate	Northeast	300,000
	Manufacturing	East	230,000
Development	Transportation	West	200,000
	Advertising	East	200,000
	Communications	West	185,000
	High Tech	West	170,000
	High Tech	West	160,000
	Health Care	Southeast	150,000
	Energy	West	150,000
	Entertainment	West	150,000
Regional	Manufacturing	West	150,000
	Manufacturing	East	150,000
Administration	Industrial Products	West	150,000
Merchandising	Manufacturing	Midwest	145,000
	Manufacturing	East	145,000
	International Energy	Midwest	145,000
Operations	Aerospace	West	140,000
	Apparel	West	140,000
	Manufacturing	Southwest	140,000
	Entertainment	West	140,000
	Electronics	Midwest	140,000
	Leisure	East	140,000
	Health Care	East	140,000
	Real Estate	Southeast	140,000
	Construction	South	125,000
	Health Care	Midwest	120,000
Administration	Health Care	West	120,000
	High Tech	Midwest	120,000
Operations	Industrial Products	Northeast	120,000
Regional	Machinery	East	120,000
	Metals	Northeast	120,000
Operations	Retail	East	120,000
Licensing	Consumer Products	Midwest	110,000
Operations	Health Care	Northeast	110,000

POSITION	INDUSTRY	LOCATION	SALARY
	Real Estate	West	$110,000
	Manufacturing	East	110,000
	Apparel	East	110,000
	Utilities	Midwest	105,000
	Apparel	East	100,000
	Chemicals	Northeast	100,000
	Communications	Northeast	100,000
	Entertainment	West	100,000
	Health Care	East	100,000
	Health Care	West	100,000
	High Tech	East	100,000
	Hospitality	Midwest	100,000
Administration	Insurance	East	100,000
	Real Estate	East	100,000
Operations	Wholesaling	South	100,000
	Machinery	South	90,000
	Insurance	South	85,000
	Food	East	85,000
	Health Care	Southeast	80,000
	Insurance	Southwest	80,000
Operations	Leisure Services	West	80,000
General Manager			
Vice President	Communications	Southeast	175,000
	Manufacturing	West	150,000
	Machinery	West	140,000
Vice President	Communications	East	125,000
	Industrial Products	East	120,000
Vice President	Manufacturing	Midwest	105,000
	Aerospace	West	100,000
	Business Services	Northeast	100,000
	Manufacturing	Midwest	100,000
	Computer	West	100,000
	Food Processing	Midwest	100,000
Operations	Health Care	Midwest	100,000
Vice President	Manufacturing	Midwest	100,000
	Consumer Products	Northeast	95,000
	Electronics	West	90,000
Vice President	Software	Northeast	90,000
	Consumer Products	West	80,000
	Chemicals	Midwest	75,000
	Printing	Northeast	75,000
Director			
Managing	Building Products	Northeast	200,000
	High Tech	West	200,000
Commercial Oper.	Industrial Products	Midwest	200,000
	High Tech	West	175,000
	Leisure	East	140,000
	Insurance	West	140,000
	High Tech	West	125,000
	High Tech	Northeast	125,000
Associate	Health Care	West	120,000
	Health Care	East	110,000
Travel Services	Consumer Products	Northeast	110,000
	Utility	East	100,000
Managing	Computer	International	100,000
	Communications	West	100,000
	Health Care	West	100,000
Commercial	Consumer Products	Midwest	90,000
	Health Care	Southwest	90,000
	Health Care	Northeast	90,000
Real Estate	Industrial Products	Midwest	90,000
	Health Care	West	90,000

POSITION	INDUSTRY	LOCATION	SALARY
Logistics	Health Care	Northeast	$90,000
Associate	Pharmaceuticals	Northeast	90,000
	Entertainment	West	85,000
	Insurance	Southeast	85,000
	Real Estate	Southeast	80,000
	Manufacturing	East	80,000
Real Estate	Food	East	80,000
	Transportation	West	80,000
	Chemicals	East	75,000
	Real Estate	Southeast	75,000
	Industrial Products	Midwest	75,000
Operations	Energy	West	75,000
Manager			
Project	Hospitality	Midwest	500,000
	Real Estate	West	200,000
	Apparel	East	200,000
	High Tech	Southeast	200,000
Division	Real Estate	West	185,000
	Health Care	West	160,000
	Consumer Products	East	160,000
	Manufacturing	West	150,000
	Real Estate	Southeast	150,000
	Manufacturing	Midwest	150,000
	Retail	West	140,000
	Computer Software	West	140,000
	High Tech	Midwest	130,000
	Retail	East	120,000
	High Tech	West	120,000
	Telecommunications	West	120,000
	Telecommunications	West	115,000
	Food Services	West	110,000
	Manufacturing	Midwest	110,000
	Hospitality	West	100,000
	Manufacturing	East	100,000
International	Beverage	Midwest	100,000
	Retail	East	90,000
	Manufacturing	East	90,000
Business	Manufacturing	Northeast	81,000
	Real Estate	East	75,000
Administration	Retail	East	75,000
FINANCE			
President and CEO			
	Financial Services	West	430,000
	Banking	West	400,000
	Financial Services	Northeast	400,000
	Financial Services	Midwest	400,000
	Financial Services	West	400,000
	Insurance	East	400,000
	Banking	West	290,000
	Financial Services	West	270,000
	Financial Services	East	260,000
	Financial Services	Midwest	260,000
	Banking	Midwest	260,000
	Financial Services	Midwest	225,000
	Financial Services	East	215,000
	Financial Services	East	190,000
	Banking	East	140,000
Chairman			
	Financial Services	East	650,000
	Financial Services	Midwest	280,000

POSITION	INDUSTRY	LOCATION	SALARY
President			
COO	Financial Services	East	$340,000
	Financial Services	East	300,000
COO	Financial Services	East	260,000
COO	Financial Services	Midwest	200,000
	Banking	East	200,000
	Investments	Midwest	200,000
	Financial Services	Midwest	130,000
	Banking	Midwest	125,000
	Banking	Midwest	120,000
	Real Estate	Midwest	120,000
	Banking	East	110,000
	Banking	Northeast	100,000
	Banking	Midwest	100,000
COO	Financial Services	Southwest	100,000
Chief Financial Officer			
	Machinery	West	300,000
	High Tech	West	280,000
	Real Estate	Southwest	260,000
	Retail	West	250,000
Executive VP	Financial Services	Midwest	245,000
	Banking	East	225,000
Executive VP	Distribution	Southwest	200,000
Senior VP	Manufacturing	East	200,000
	Banking	Northeast	200,000
	Communication	Northeast	200,000
	Entertainment	West	200,000
	Paper	Northeast	190,000
Vice President	Manufacturing	Midwest	186,000
	Financial Services	East	175,000
	Food	West	170,000
Executive VP	Manufacturing	Southwest	162,500
	Banking	West	160,000
	Manufacturing	Midwest	160,000
	High Tech	East	155,000
	Health Care	Southeast	150,000
	Retail	Midwest	150,000
Senior VP	Textile	East	150,000
Vice President	Business Services	East	150,000
Vice President	Conglomerate	East	150,000
	Health Care	West	145,000
Executive VP	Retail	Midwest	141,500
	Health Care	Southwest	140,000
	Manufacturing	Midwest	140,000
	Real Estate	East	140,000
Vice President	Metals	Midwest	122,000
	Banking	Midwest	120,000
	Health Care	West	120,000
	Industrial Products	East	120,000
	Manufacturing	West	120,000
Vice President	Manufacturing	Northeast	120,000
	Banking	Southeast	100,000
	Communications	South	100,000
	Insurance	East	100,000
	Health Care	West	100,000
	Transportation	West	100,000
	Manufacturing	Southwest	100,000
Vice President	Manufacturing	Midwest	98,000
	Health Care	West	90,000
Vice President	Engineering	South	90,000
	Health Care	West	90,000
	Technology	Northeast	90,000
	Data Communications	Southwest	80,000
	Transportation	Midwest	$80,000
	Industrial Products	West	80,000
	Food	Midwest	75,000
	Health Care	West	75,000
	Electronics	Southwest	75,000
Chief Investment Officer			
	Financial Services	Midwest	230,000
	Insurance	East	200,000
Executive Vice President			
Mergers	Financial Services	West	400,000
Research	Financial Services	Northeast	400,000
	Banking	West	400,000
Investment Bank.	Banking	Southwest	340,000
	Banking	East	260,000
	Banking	West	260,000
COO	Banking	East	250,000
	Financial Services	East	250,000
	Investment Banking	East	250,000
Operations	Financial Services	South	125,000
Finance	Banking	East	120,000
	Financial Services	East	115,000
	Mortgage Banking	South	100,000
Senior Vice President			
Corporate Finance	Financial Services	West	550,000
	Financial Services	West	400,000
Consulting	Financial Services	East	400,000
Corporate Devel.	Insurance	East	340,000
Fixed Income	Financial Services	East	300,000
Inst. Marketing	Financial Services	Northeast	300,000
	Real Estate	Midwest	260,000
International	Banking	West	260,000
	Banking	East	260,000
Portfolio Manager	Financial Services	Northeast	250,000
	Investments	Northeast	250,000
	Manufacturing	West	240,000
	Real Estate	Midwest	230,000
	High Tech	Midwest	220,000
	Health Care	Midwest	200,000
Fund Marketing	Financial Services	Northeast	200,000
	Investment Banking	Northeast	200,000
	Electronics	West	200,000
	Telecommunications	Midwest	200,000
Compliance	Investment Banking	East	200,000
Administration	Financial Services	West	200,000
	Consumer Products	Midwest	190,000
Business	Financial Services	Southeast	180,000
Develpoment	Investment Banking	Northeast	180,000
Corporate Devel.	Financial Services	Southeast	180,000
Fixed Income	Financial Services	Northeast	175,000
	Hospitality	East	170,000
	Banking	East	160,000
	Manufacturing	Fast	160,000
	Entertainment	West	160,000
Private Banking	Banking	East	150,000
Operations	Banking	Southwest	150,000
Tax	Financial Services	Southeast	150,000
Actuary	Insurance	East	150,000
	Manufacturing	Midwest	145,000
	Banking	East	145,000
Trust	Banking	West	145,000
	Banking	East	140,000

POSITION	INDUSTRY	LOCATION	SALARY
	Banking	West	$140,000
	Consumer Products	West	140,000
	Industrial Products	East	140,000
	High Tech	East	140,000
	Insurance	East	140,000
	Consumer Products	Northwest	125,000
	Banking	West	120,000
	Banking	East	120,000
	Banking	Midwest	120,000
	Banking	East	115,000
	Banking	East	110,000
	Machinery	Southeast	110,000
Planning	Entertainment	West	110,000
	Banking	West	110,000
Credit	Banking	East	110,000
	Aerospace	East	100,000
	Banking	West	100,000
	Banking	East	100,000
Credit	Banking	Midwest	100,000
	High Tech	East	100,000
	Investments	Southeast	100,000
	Banking	East	90,000
	Banking	East	85,000
	Banking	West	80,000
Lending	Banking	Southeast	80,000
Investor Rel.	Banking	Southwest	80,000
	Health Care	Southeast	80,000
	Banking	East	75,000
Vice President			
	Financial Services	West	400,000
	Investment Banking	East	300,000
	Banking	East	260,000
	Financial Services	East	250,000
LBOs	Financial Services	Northeast	250,000
London	Investment Banking	International	250,000
Japan	Investment Banking	International	250,000
	Investment Banking	East	237,000
Fixed Income	Financial Services	West	230,000
Inst. Sales	Financial Services	East	225,000
	Holding Company	West	210,000
	Financial Services	East	200,000
	Investment Banking	Northeast	200,000
	Banking	Northeast	200,000
Inst. Sales	Banking	Northeast	200,000
	Financial Services	Northeast	200,000
Operations	Financial Services	East	200,000
	Chemicals	West	200,000
	High Tech	Midwest	200,000
	Financial Services	East	200,000
Insurance	Investment Banking	East	200,000
	Retail	Midwest	188,000
	Investment Banking	Northeast	180,000
	Financial Services	West	160,000
Capital Markets	Banking	East	160,000
	Banking	East	160,000
	Asset Management	East	150,000
	Banking	Midwest	150,000
	Financial Services	East	150,000
Corporate Finance	Financial Services	Midwest	150,000
Finance	Financial Services	Northeast	150,000
Mortgage	Financial Services	Southeast	150,000
Merchant Banking	Financial Services	Southwest	150,000
Assistant	Financial Services	Northeast	150,000
	Investment Banking	Northeast	$150,000
	Investments	Northeast	150,000
Finance & Devel.	Conglomerate	East	150,000
Corporate	Banking	East	145,000
Facilities Man.	Banking	East	140,000
Equities	Financial Services	West	140,000
	Banking	East	140,000
	High Tech	West	140,000
	Banking	South	135,000
Actuary	Insurance	Midwest	135,000
Operations	Banking	East	125,000
	Investment Banking	Northeast	120,000
	Financial Services	Southwest	120,000
Lending Officer	Banking	East	120,000
	Financial Services	East	120,000
	Financial Services	Southwest	120,000
Corporate Finance	Investment Banking	West	120,000
Investments	Banking	East	110,000
Public Finance	Banking	West	110,000
Sales Cash Man.	Banking	Northeast	110,000
	Banking	West	110,000
	Financial Services	Northeast	108,000
	Chemicals	East	100,000
	Finance	East	100,000
Corporate Bonds	Investment Banking	International	100,000
	Investments	Northeast	100,000
	Investments	Northeast	95,000
Europe	Banking	Northeast	90,000
Finance & Admin.	Broadcasting	Southwest	90,000
	Electronics	West	90,000
	Financial Services	Southwest	90,000
	Financial Services	Southeast	90,000
	Investments	Southeast	90,000
Finance & Admin	Security Systems	West	89,000
Project Finance	Engineering	West	85,000
	Brokerage	Northeast	85,000
	Credit	West	85,000
	Banking	Midwest	81,000
Priv. Placement	Banking	Midwest	80,000
Trust	Banking	East	80,000
	Banking	Northeast	80,000
Auditing	Banking	Midwest	80,000
	Banking	Southeast	80,000
	Financial Services	West	80,000
Underwriting	Insurance	Southeast	80,000
	Machinery	South	80,000
	Banking	Northeast	75,000
	Banking	Southeast	75,000
	Insurance	South	75,000
	Investments	Northeast	75,000
Finance	Wholesaling	Southwest	75,000
Controller			
	Paper	Midwest	150,000
Assistant	Utility	West	130,000
	Financial Services	Northeast	125,000
	Industrial Products	West	120,000
	Food	East	120,000
	Transportation	West	110,000
	Banking	East	100,000
	Consumer Products	East	100,000
	Industrial Products	West	100,000
Director	Conglomerate	Northeast	90,000
	Banking	East	90,000

POSITION	INDUSTRY	LOCATION	SALARY
Assistant	Food Processing	Midwest	$87,500
	Health Care	West	85,000
	Metals	Midwest	85,000
	Banking	Northeast	80,000
	Manufacturing	East	80,000
	Manufacturing	Northeast	75,000
Treasurer			
	Banking	Northeast	200,000
	Consumer Products	Midwest	175,000
	Aerospace	East	150,000
	Banking	West	150,000
	Banking	Midwest	150,000
	Financial Services	Northeast	150,000
	Food	East	140,000
	Food	West	120,000
	Holding Company	West	117,000
	Building Products	West	110,000
	Food	Midwest	96,000
Corporate	Diversified	Midwest	90,000
	Food	South	77,000
Taxes	Insurance	East	75,000
	Real Estate	Southeast	75,000
Director			
Managing	Investment Banking	Northeast	750,000
Managing	Financial Services	Northeast	675,000
Research	Investment Banking	Northeast	600,000
Managing	Financial Services	East	500,000
Managing	Financial Services	Northeast	300,000
Mergers	Investment Banking	East	200,000
	Machinery	Northeast	200,000
Managing	Banking	East	200,000
Consulting	Financial Services	Southeast	200,000
Research	Financial Services	East	160,000
Regional	Financial Services	East	160,000
Managing	Financial Services	Northeast	150,000
Credit Officer	Banking	Midwest	145,000
Senior	Food	Southeast	128,000
Managing	Investment Banking	Japan	123,000
	Food	Northeast	112,500
Risk Management	Health Care	West	110,000
	Investment Banking	Northeast	100,000
	Leisure	West	100,000
	Furniture	Northeast	100,000
	Paper	Southeast	90,000
Corporate Devel.	Financial Services	East	90,000
Taxes	Financial Services	Northeast	90,000
Account Officer	Banking	West	90,000
Account Officer	Banking	West	85,000
Planning/Analysis	Financial Services	East	85,000
	Insurance	South	85,000
	Construction	West	80,000
	Health Care	West	80,000
Accounting	Food	West	80,000
Loan Officer	Real Estate	Midwest	80,000
	Telecommunications	East	75,000
	Health Care	South	75,000
Financial Analyst	Business Products	East	75,000
Manager			
For. Securities	Financial Services	West	290,000
	Investment Banking	Northeast	250,000
Analyst	Financial Services	East	200,000
	Financial Services	Southwest	$180,000
Portfolio	Financial Services	East	175,000
Investments	Banking	East	160,000
	Commodities	Europe	160,000
	Financial Services	East	160,000
Gov. Securities	Investment Banking	East	160,000
Branch	Financial Services	Northeast	150,000
Money Market	Financial Services	West	150,000
CSD Oper. Japan	Investment Banking	International	150,000
Tax	Manufacturing	Midwest	150,000
Lending	Banking	West	140,000
Tax	Financial Services	East	140,000
Regional	Financial Services	East	140,000
Actuary	Insurance	West	140,000
Operations	Investment Banking	East	140,000
	Banking	East	140,000
Fixed Income	Financial Services	East	120,000
Control	Food	Southwest	120,000
	Financial Services	Southeast	115,000
Planning	Telecommunications	Southeast	115,000
Mortgage Banking	Financial Services	Midwest	110,000
	Banking	East	110,000
Planning	Telecommunications	Southeast	105,000
	Financial Services	Midwest	100,500
	Financial Services	East	100,000
Portfolio	Financial Services	East	100,000
Countertrader	Financial Services	East	100,000
Area	Investment Banking	International	100,000
Consultant	Service Company	Northeast	100,000
Consultant	Conglomerate	Midwest	97,000
Mortgage Banking	Financial Services	Southeast	95,000
	Financial Services	Midwest	95,000
Portfolio	Financial Services	East	90,000
Consultant	Service Company	Northeast	90,000
	Banking	East	90,000
Corporate Lending	Banking	East	90,000
	Banking	East	85,000
Credit Card	Banking	East	80,000
Tax	Financial Services	East	80,000
Planning	Electronics	Midwest	80,000
Budgeting	Health Care	West	80,000
	Banking	West	80,000
Senior	Banking	Northeast	80,000
	Food	South	77,000
Accounting	Insurance	West	75,000
MANUFACTURING			
President			
Operations	Communications	West	290,000
Executive Vice President			
	Manufacturing	East	120,000
	Industrial Products	Midwest	80,000
Quality Assurance	Machinery	Southeast	80,000
Vice President			
Operations	Consumer Products	West	200,000
Manufacturing	Automotive	Midwest	180,000
General Manager	Manufacturing	Northeast	150,000
	Machinery	South	150,000
	Metals	Northeast	145,000
	Computer Peripherals	West	130,000
	Electronics	West	125,000

POSITION	INDUSTRY	LOCATION	SALARY
	Food	Northeast	$125,000
Quality Control	Aerospace	East	120,000
	Apparel	Northeast	115,000
	Paper	South	115,000
Corporate Serv.	Building Products	East	110,000
	Publishing	Northeast	100,000
	Manufacturing	Midwest	100,000
Operations	Fasteners	Midwest	90,000
	Computer Peripherals	West	90,000
	Chemicals	East	90,000
	Industrial Products	Midwest	80,000
Distribution	Food	Southwest	80,000
	Consumer Products	Southwest	75,000
	Consumer Products	Northeast	75,000
Purchasing	Publishing	Northeast	75,000
Director			
Corporate	Building Products	Midwest	160,000
Operations	Chemicals	Midwest	150,000
Operations	Apparel	West	110,000
Purchasing	Leisure	East	110,000
Distribution	Food	Southeast	110,000
	Retail	West	100,000
Automation	Industrial Products	West	90,000
Planning	Communications	East	90,000
	High Tech	West	90,000
	Communications	East	90,000
	Industrial Products	Southeast	85,000
	Pharmaceuticals	Midwest	82,000
Quality Control	Building Products	Midwest	80,000
Distribution	Wholesaling	Southwest	80,000
Operations	Manufacturing	East	80,000
Manager			
Operations	Industrial Products	East	140,000
	Paper	East	140,000
	Chemicals	Northeast	136,000
Assistant Plant	Transportation	Midwest	120,000
	Aerospace	East	110,000
Materials	Industrial Products	West	110,000
	Food	West	100,000
	Electronics	East	90,000
	Transportation	Southeast	90,000
Plant	Paper	Midwest	80,000
Plant	Building Products	Midwest	80,000
	Automotive	Southeast	80,000
Distribution	Apparel	East	80,000
Operations	Industrial Products	Midwest	80,000
Safety	Energy	Southwest	79,000
Quality Control	Industrial Products	Southwest	75,000
Production	Paper	South	75,000
Purchasing	Automotive	Southeast	75,000
	Transportation	Midwest	75,000
Plant	Manufacturing	Midwest	75,000
MARKETING			
President			
Group	Industrial Products	East	150,000
Executive Vice President			
	Communications	Southeast	268,000
	Entertainment	West	200,000
	Financial Services	East	200,000
Senior Vice President			
	Automotive	West	$300,000
	Telecommunications	East	260,000
	Financial Services	Northeast	250,000
	Banking	West	200,000
	High Tech	West	145,000
	Finance	Southwest	125,000
	Health Care	West	120,000
	Computer	West	120,000
	Insurance	Southeast	95,000
Vice President			
	Food	Southwest	200,000
	Computer	Midwest	194,000
	Food	Midwest	180,000
	Consumer Products	Midwest	169,000
	Financial Services	East	160,000
	Consumer Products	East	160,000
	Retail	Southwest	150,000
	High Tech	East	150,000
	Electronic Components	West	150,000
Group	Industrial Products	East	150,000
	Apparel	Northeast	150,000
	Consumer Products	East	150,000
	High Tech	West	145,000
	Entertainment	West	145,000
	Motion Pictures	West	140,000
	Energy	Southwest	140,000
	Energy	East	140,000
	Chemicals	West	140,000
	Health Care	East	140,000
	Financial Services	West	125,000
	Food	Northeast	125,000
	Printing	Northeast	120,000
	Banking	East	120,000
	Industrial Products	Midwest	120,000
	Consumer Products	South	120,000
	Hospitality	West	115,000
	Retail	Midwest	112,500
	Health Care	Northeast	110,000
	Business Products	Midwest	110,000
	Industrial Products	East	110,000
& Sales	High Tech	Southwest	110,000
	Financial Services	West	110,000
	Services	South	100,000
	High Tech	West	100,000
	Retail	Midwest	100,000
	Wholesale	Northeast	100,000
	Transportation	Midwest	100,000
	Health Care	East	100,000
	Consumer Products	South	100,000
	Industrial Products	West	100,000
	Manufacturing	West	100,000
	Leisure	Midwest	100,000
	Computer Software	Midwest	100,000
	Leasing	South	100,000
	Banking	Northeast	90,000
	Banking	Midwest	90,000
	Machinery	West	90,000
	Telecommunications	Southwest	90,000
	High Tech	Northeast	90,000
	Health Care	Midwest	90,000
	Consumer Products	Northeast	90,000
	Electronics	Northeast	87,000

POSITION	INDUSTRY	LOCATION	SALARY
	Food	Midwest	$85,000
	Manufacturing	West	80,000
	Computer Peripherals	West	80,000
	Food	South	80,000
	Pharmaceuticals	Northeast	75,000
	Banking	West	75,000
& Sales	Metals	Northeast	75,000
	Wholesaling	South	75,000
	Telecommunications	Midwest	75,000
	Telecommunications	South	75,000
	Consumer Products	Northeast	75,000
Director			
	Real Estate	West	140,000
	Computer Software	West	140,000
	Consumer Products	East	135,000
	Business Services	Northeast	125,000
	Computer	Midwest	125,000
	Insurance	West	120,000
Product	Insurance	Midwest	120,000
	Energy	West	115,000
Product	Computer Software	West	115,000
	Food	East	110,000
	Chemicals	Midwest	105,000
Advertising	Business Services	Southwest	100,000
	Chemicals	Northeast	100,000
	Apparel	East	100,000
Regional	Health Care	Southeast	100,000
	Health Care	Northeast	95,000
	Machinery	West	90,000
	Insurance	West	90,000
Research	Insurance	West	90,000
	Computer	Midwest	85,000
	Insurance	West	84,000
	Finance	Southwest	80,000
& Sales	Manufacturing	West	80,000
	Machinery	Northeast	75,000
Gov. Systems	Computers	West	75,000
	Food	Midwest	75,000
	Metals	Northeast	75,000
	Chemicals	Northeast	75,000
	Leisure	Southeast	75,000
Pricing	Telecommunications	Southeast	75,000
Manager			
	Financial Services	Northeast	175,000
	Insurance	East	140,000
	Energy	East	140,000
	Manufacturing	Northeast	112,000
	Industrial Products	West	110,000
Business Dev.	Leasing	Midwest	110,000
	Service	Southeast	102,000
	Apparel	East	95,000
	Energy	Southwest	90,000
	Industrial Products	East	90,000
	Consumer Products	Midwest	90,000
	Food	Southeast	90,000
Regional	Food	Midwest	87,000
	Aerospace	Southeast	86,000
	Utilities	South	85,000
	Chemicals	Midwest	85,000
	Food	Northeast	85,000
Product	Plastics	Northeast	85,000
	Insurance	West	84,000

POSITION	INDUSTRY	LOCATION	SALARY
	Computer Software	Northeast	$80,000
	Manufacturing	Midwest	80,000
	Transportation	East	80,000
	Consumer Products	West	80,000
	Consumer Products	Southeast	80,000
	Food	Southeast	80,000
	Consumer Products	Northeast	78,000
Development	Beverage	Central	78,000
Branch	Retail	East	75,000
Regional	High Tech	Midwest	75,000
Program	Computer	West	75,000
Consulting	Apparel	West	75,000
Telemarketing	Retail	East	75,000
Copywriting	Transportation	East	75,000
Brand	Industrial Products	East	75,000
	Consumer Products	West	75,000
Group Product	Food	Northeast	75,000
Product	Food	Midwest	75,000
SALES			
Executive Vice President			
	Financial Services	Northeast	210,000
	Manufacturing	Northeast	130,000
Senior Vice President			
	Industrial Products	Midwest	260,000
	Insurance	Midwest	170,000
	Chemicals	Midwest	160,000
	Insurance	Midwest	125,000
Vice President			
	Investment Banking	Northeast	300,000
	Investment Banking	Northeast	200,000
	Investment Banking	Northeast	180,000
	Manufacturing	West	170,000
	Conglomerate	Midwest	145,000
	Consumer Products	East	145,000
	Banking	East	140,000
	Data Communications	West	140,000
	Real Estate	West	140,000
	Retail	Southeast	140,000
International	Entertainment	West	140,000
	Pharmaceuticals	Midwest	130,000
	Industrial Products	Midwest	125,000
	Food	Midwest	122,000
	Consumer Products	East	120,000
	Food	Midwest	120,000
	Food	West	120,000
	Electronics	West	120,000
	Wholesaling	Midwest	120,000
	Aerospace	West	110,000
	Hospitality	West	110,000
	Consumer Products	South	100,000
	Machinery	Northeast	100,000
	High Tech	East	100,000
	High Tech	West	100,000
	Leasing	South	100,000
	Manufacturing	East	90,000
	Holding Co.	Northeast	90,000
	Publishing	Midwest	80,000
	Consumer Products	Southeast	80,000
	Data Communications	West	80,000
	Apparel	East	80,000

Director

POSITION	INDUSTRY	LOCATION	SALARY
	Investment Banking	Northeast	$150,000
	Consumer Products	East	110,000
	High Tech	East	100,000
	Manufacturing	Midwest	100,000
	Entertainment	West	90,000
Regional	Pharmaceuticals	Southwest	85,000
	Aerospace	Southwest	84,000
	Chemicals	Midwest	83,000
	Real Estate	Southwest	80,000
	Communications	East	75,000
	Machinery	Midwest	75,000
	Telecommunications	Southwest	75,000
	Health Care	Northeast	75,000
	High Tech	Midwest	75,000

Manager

POSITION	INDUSTRY	LOCATION	SALARY
Senior	Financial Services	West	340,000
Senior	High Tech	West	140,000
Senior	Data Communications	East	140,000
Senior	Food	East	135,000
	Chemicals	Midwest	110,000
	Industrial Products	East	110,000
	Machinery	Midwest	100,000
Regional	Transportation	Southwest	100,000
	Conglomerate	West	100,000
	Apparel	East	100,000
	Business Products	East	100,000
	Machinery	Northeast	100,000
National Field	Pharmaceuticals	Northeast	98,000
	Food	East	95,000
	Machinery	South	90,000
Regional	Transportation	Southwest	85,000
Senior	Industrial Products	Midwest	85,000
Senior	Manufacturing	Midwest	80,000
	Manufacturing	East	80,000
	Wholesale	Northeast	80,000
	Chemical	Midwest	80,000
	Energy	Southwest	80,000
	Food	West	80,000
	Entertainment	West	80,000
	Consumer Products	Midwest	80,000
Trade Development	Beverage	Northeast	78,000
Div. Trade Dev.	Beverage	Midwest	78,000
	Leisure	Midwest	75,000
	Aerospace	West	75,000
	Industrial Products	East	75,000
	Manufacturing	East	75,000
	Financial Services	Northeast	75,000
	Computer	Midwest	75,000
	Retail	Midwest	75,000
	Retail	West	75,000

HUMAN RESOURCES

Senior Vice President

POSITION	INDUSTRY	LOCATION	SALARY
	Retail	Midwest	234,000
	Banking	Northeast	125,000
	Banking	West	100,000
Health Benefits	Insurance	Southeast	92,000

Vice President

POSITION	INDUSTRY	LOCATION	SALARY
	Metals	Midwest	200,000
	Leisure	West	200,000
	Aerospace	East	$160,000
	Investment Banking	Northeast	150,000
	Electronics	Midwest	150,000
Administration	Food	East	140,000
	Retail	Southeast	137,000
	Banking	East	135,000
Personnel	Insurance	Midwest	135,000
Benefits	Consumer Products	East	125,000
Benefits	Pharmaceuticals	West	125,000
	Computer	Northeast	125,000
	Automotive	Midwest	120,000
Asst., Staffing	Insurance	Northeast	112,500
	Consumer Products	West	100,000
Benefits	Consumer Products	East	100,000
	Manufacturing	Midwest	105,000
	Communications	Midwest	96,000
	Electronics	South	95,000
Training	Industrial Products	Midwest	90,000
Training	Banking	East	85,000
	Machinery	Midwest	80,000
	Banking	West	75,000

General Manager

POSITION	INDUSTRY	LOCATION	SALARY
Employee	Computer	Northeast	100,000

Director

POSITION	INDUSTRY	LOCATION	SALARY
Manpower Planning	Insurance	East	200,000
Compensation	Banking	East	200,000
	Real Estate	Midwest	160,000
	Banking	West	160,000
	Banking	West	130,000
	Consumer Products	Northeast	120,000
	Banking	East	120,000
Administration	Manufacturing	Midwest	120,000
Management Dev.	Food	Southwest	120,000
Org. Planning	Food	Midwest	100,000
	Financial Services	West	100,000
Comp. & Benefits	High Tech	Northeast	100,000
	Machinery	Northeast	90,000
Benefits	Health Care	West	80,000
	Consumer Products	Europe	75,000
	Business Products	East	75,000

Manager

POSITION	INDUSTRY	LOCATION	SALARY
	Holding Co.	Northeast	150,000
	Financial Services	Northeast	135,000
	Financial Services	Northeast	112,000
	Manufacturing	West	110,000
Benefits	Investment Banking	East	100,000
Compensation	Banking	Midwest	90,000
Benefits	Insurance	East	80,000
Fulfillment	Retail	East	80,000
	Utilities	Midwest	80,000
	Manufacturing	Southeast	75,000
Management Devel.	Financial Services	East	75,000

TECHNOLOGY

Senior Vice President

POSITION	INDUSTRY	LOCATION	SALARY
Data Processing	Banking	East	400,000
Data Processing	Health Care	West	340,000
Data Processing	Banking	East	200,000
Data Processing	Insurance	East	150,000
Engineering	High Tech	West	150,000

POSITION	INDUSTRY	LOCATION	SALARY
Vice President			
Chief Tech. Off.	Computer	Northeast	$200,000
MIS	Telecommunications	West	200,000
System Design	Financial Services	East	170,000
	Computer	Southwest	160,000
Architecture	Retail	East	160,000
R&D	Business Services	Northeast	150,000
R&D	Data Communications	West	150,000
R&D	Consumer Products	Northeast	150,000
Data Processing	Food	Midwest	150,000
Data Processing	Financial Services	East	140,000
	Energy	Southwest	140,000
	Aerospace	East	130,000
Engineering	High Tech	Northeast	125,000
Data Processing	Banking	East	120,000
Engineering	Industrial Products	East	115,000
Operations	Data Communications	East	110,000
Prod. Engineering	Petrochemicals	Northeast	110,000
Product Devel.	Energy	Northeast	110,000
Engineering	Computer Software	Midwest	105,000
Engineering	Electronics	West	100,000
	Health Care	Northeast	90,000
Engineering	Energy	East	85,000
Data Processing	High Tech	Southwest	85,000
Data Operations	Insurance	Southeast	80,000
Software	High Tech	Southeast	80,000
	Manufacturing	Southeast	80,000
	Chemicals	Midwest	80,000
Research	Chemicals	East	75,000
Engineering	Computer Peripherals	West	75,000
Design	Industrial Products	Midwest	75,000
Director			
	Food	Northeast	150,000
Data Processing	Service Bureau	Southwest	145,000
Data Processing	High Tech	East	140,000
Data Processing	Manufacturing	Southwest	140,000
Data Processing	Leisure	Midwest	110,000
Data Processing	Financial Services	Midwest	109,000
Data Processing	Communications	West	100,000
Engineering	Manufacturing	Midwest	100,000
Science	Pharmaceuticals	East	100,000
Engineering	Paper	South	100,000
R&D	Research	East	90,000
Corporate R&D	Manufacturing	Midwest	90,000
Engineering	Manufacturing	Midwest	80,000
	Industrial Products	Midwest	75,000
	Food	Northeast	75,000
MIS	Entertainment	West	75,000

POSITION	INDUSTRY	LOCATION	SALARY
Manager			
	High Tech	West	$120,000
Engineering	Food	Northeast	85,000
International	Chemicals	Northeast	85,000
	Electronics	Midwest	80,000
Engineering	Chemicals	Northeast	80,000
EDP Management	Banking	Southeast	80,000
Data Processing	Aerospace	East	75,000
Engineering	Manufacturing	Southeast	75,000
R&D	Food	Northeast	75,000

PLANNING

POSITION	INDUSTRY	LOCATION	SALARY
Senior Vice President			
Acquisitions	High Tech	East	200,000
	Insurance	East	135,000
Vice President			
M&A	Financial Services	Northeast	600,000
	High Tech	Midwest	200,000
Development	Food	Northeast	175,000
	Industrial Products	East	150,000
Development	Business Services	Northeast	150,000
M&A	Holding Co.	Northeast	150,000
	High Tech	East	145,000
Acquisitions	Real Estate	West	140,000
Director, Devel.	Food	Midwest	125,000
	Banking	Northeast	120,000
Corporate Devel.	Mining	South America	120,000
	Food	Midwest	115,000
	Aerospace	Northeast	102,000
	Financial Services	Midwest	100,000
	Toys	Northeast	90,000
	Motion Pictures	West	80,000
	Machinery	Southwest	75,000
Director			
	Defense	Northwest	150,000
	Food	East	140,000
	Health Care	Southeast	100,000
	Communications	East	90,000
	Computer Software	Northeast	90,000
	Beverage	Midwest	85,000
	Plastics	Midwest	80,000
Manager			
Acquisitions	Real Estate	Midwest	160,000
	Communications	East	145,000
	Research	Northeast	125,000
	Chemicals	Midwest	100,000
	Utilities	Northeast	90,000

FIRMS PARTICIPATING

Battalia & Associates, Inc.
275 Madison Ave., New York, N.Y. 10016
Billington, Fox & Ellis, Inc.
20 N. Wacker Dr., Chicago, Ill. 60606
Boyden Associates Inc.
260 Madison Ave., New York, N.Y. 10016
Canny, Bowen, Inc.
425 Park Ave., New York, N.Y. 10022
Eastman & Beudine, Inc.
1370 One Galleria Tower
13355 Noel Rd., LB-31, Dallas, Tex. 75420
Genssler & Schwab, Inc.
645 Madison Ave., New York, N.Y. 10022
Goodrich and Sherwood, Inc.
521 Fifth Ave., New York, N.Y. 10169
Haskell & Stern Associates, Inc.
529 Fifth Ave., New York, N.Y. 10017
Ward Howell International, Inc.
99 Park Ave., New York, N.Y. 10017
A.T. Kearney, Inc.
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Kenny, Kindler & Hunt
780 Third Ave., New York, N.Y. 10017
Korn/Ferry International
1900 Ave. of Stars, Los Angeles, Calif. 90067
Kremple & Meade
1900 Ave. of Stars, Los Angeles, Calif. 90067
Lamalie Associates, Inc.
1900 E. Ninth St., Cleveland, Ohio 44114
Paul R. Ray & Co.
301 Commerce St., Fort Worth, Tex. 76102
William Stack Associates, Inc.
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Paul Stafford Associates, Ltd.
45 Rockefeller Plaza, New York, N.Y. 10111
Staub, Warmbold & Associates
655 Third Ave., New York, N.Y. 10017
William H. Willis, Inc.
445 Park Ave., New York, N.Y. 10022
Wytmar & Co., Inc.
400 E. Randolph Dr., Chicago, Ill. 60601

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(7/31/87) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$32.02/share	$10,491	$13,874
percent change		+4.9%	+38.7%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$122.63	$ 9,771	$ 9,109
ACCUMULATED INCOME		$ 78	$ 873
TOTAL		$ 9,849	$ 9,982
percent change		−1.5%	−.2%
Money Market Fund	6.02%	$10,051	$10,569
percent change		+.5%	+5.7%
Gold (Krugerrands)	$465.50/oz.	$10,258	$12,764
percent change		+2.6%	+27.6%
HOUSE PRICES	Recent	Month Earlier	Year Earlier
Existing House	$114,400	$118,700	$108,900
percent change		−3.6%	+5.1%
New House	$129,000	$131,800	$115,700
percent change		−2.1%	+11.5%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes, Inc.; Federal Home Loan Bank Board.

GET OUT OF THE DARK.

Open your eyes and see just how many subjects are covered in the new edition of the Consumer Information Catalog. It's free just for the asking and so are nearly half of the 200 federal publications described inside. Booklets on subjects like financial and career planning; eating right, exercising, and staying healthy; housing and child care; federal benefit programs. Just about everything you would need to know. Write today. We'll send you the latest edition of the Consumer Information Catalog, which is updated and published quarterly. It'll be a great help, you'll see. Just write:

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U.S. General Services Administration

that makes electric motors, ranking behind only General Electric and Westinghouse. Its prime markets are the American heartland, where Baldor motors are well known to people who work on farms, at oil refineries and in breweries. When imports flooded the market a few years back, Baldor elected to keep production in the U.S. and attack costs—mainly by converting its two main plants to continuous-flow manufacturing.

Today Baldor is no longer at a price disadvantage to Japanese producers. Far East suppliers were forced to raise prices earlier this year as the dollar declined. This fall Sicart expects Baldor to raise its own prices modestly—the first increase in seven years. "When traditional business recovers, Baldor will go to new highs in sales," he says. That should carry earnings, which were $1.07 per share in 1986, to $3 per in three years or so, Sicart adds. For him, the stock is a buy in the low 20s.

Burndy manufactures electrical connectors for end products ranging from television sets to computers. Sicart says its stock is undervalued in relation to the other connector stocks, which have been rising along with a strong electronics industry comeback. He notes that Burndy trades at 20 times earnings while AMP, the top dog in connectors, sells at a P/E of 32. Wall Street, Sicart explains, has been slow to forgive Burndy for suddenly dropping into the red by 76 cents per share in 1985. But he thinks the worst is over—that updated plants, reduced payrolls and redesigned products will push earnings into the $2-to-$2.50 per share range within the next three years. He sees Burndy as a buy in the high teens.

Black & Decker is an old-line manufacturer of power tools whose earnings were halved in 1985, and halved again in 1986. But Sicart believes B&D has shed its narrow focus on engineering and reorganized its manufacturing and product design. A company that had never done a consumer survey is now becoming marketing-driven, he says. As evidence, he notes that Black & Decker was first to come up with the much copied Dustbuster. It has introduced an "intelligent iron" and is working on a hand-held pump to reflate car tires and a battery-operated screwdriver. In addition, the company has targeted major cost reductions through 1989—to be achieved by closing one-third of its plant capacity and modernizing manufacturing processes.

With 1987 earnings headed back toward $1 per share, Black & Decker's stock has rebounded into the mid-20s from its 1986 low of 14. Sicart is estimating earnings of $1.50-to-$1.75 per share for the year ahead. But his grand view, as noted, calls for a major across-the-board revival in American manufacturing, not just a brief cyclical upswing. Accordingly, as with most of the stocks in his portfolio, Sicart plans to hold Black & Decker for three-to-four years—and he expects it to double, at least, within that time span.

—LEAH NATHANS

C4160-1
10/7/87

BUSINESS MONTH

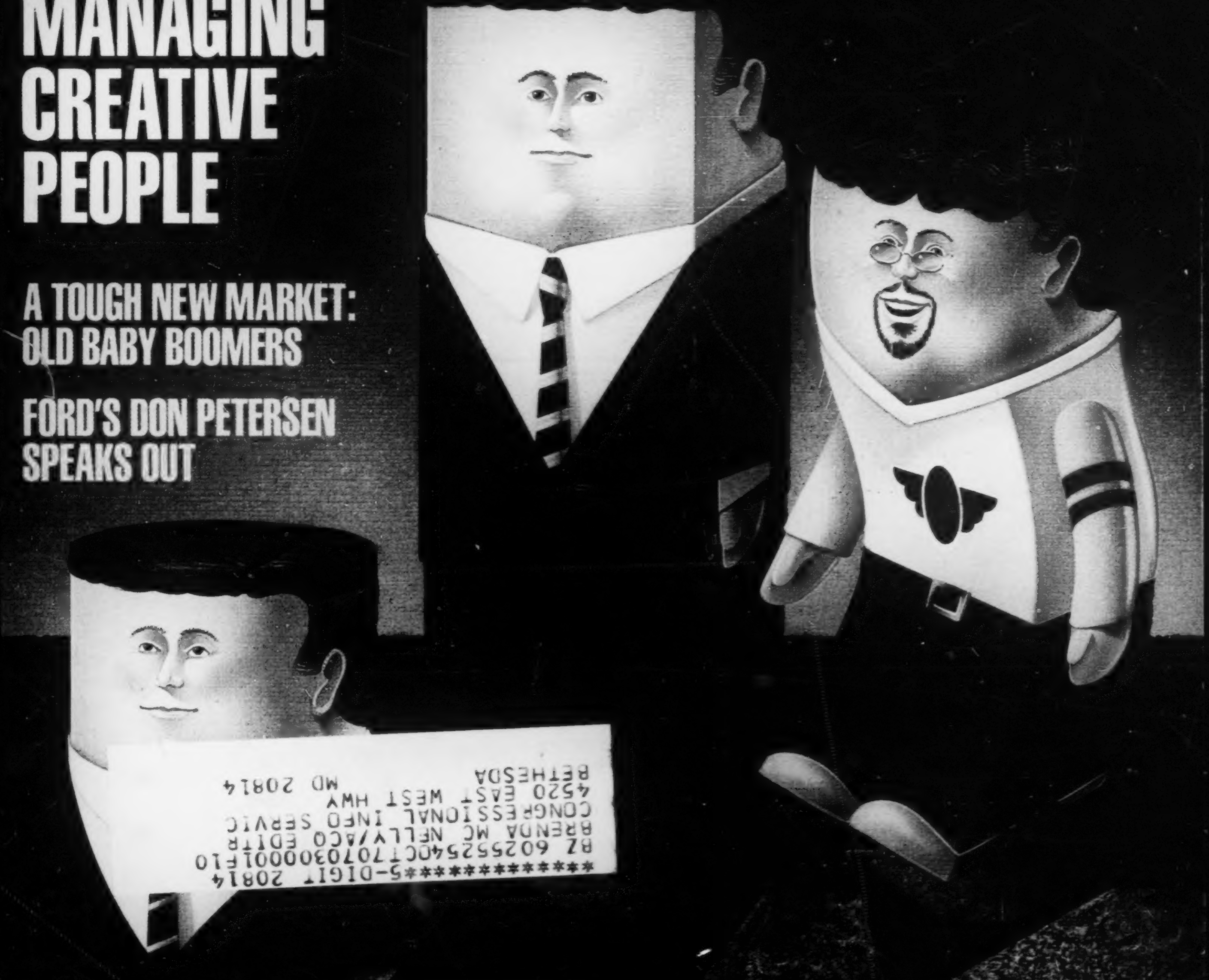
FORMERLY DUN'S BUSINESS MONTH

OCTOBER 1987 $3.00

MANAGING CREATIVE PEOPLE

A TOUGH NEW MARKET: OLD BABY BOOMERS

FORD'S DON PETERSEN SPEAKS OUT



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BUSINESS MONTH

Feature Departments

MARKETING

The Baby Boomers Are Richer and Older 24
Now a more mature public with deep pockets, the nation's best-educated consumers are a marketer's delight—and a tough sell.

- **And Now, a Word From One of Them** 27
- **New Wrinkles For a Special Group** 28

John Sculley Looks Ahead Again 30
To win tomorrow's markets, urges Apple's CEO, companies must shake up their hierarchical structures and customize their products.

- **A Grand Tour** 32

MANAGEMENT

The Art of Managing Creativity 34
Claiming a crying need for creative people, companies can't seem to manage them effectively.

INTERNATIONAL

Then Came Kawamura 40
A new breed of raider from the East, Dainippon's dynamic CEO is carving out a chemicals stronghold in the West.

ECONOMY

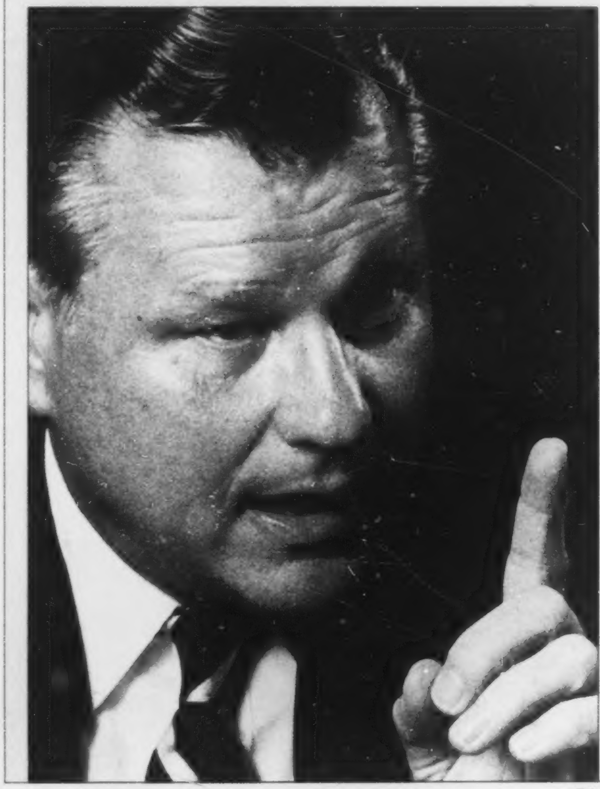
Part-Time Work Force 44
One quarter of the nation's employees come in only part-time. But it's a swell way for their employers to save billions.

COMPANIES

The Killer Bees 50
A day in the life of Sears' peripatetic trio of tireless, drop-in top managers.

MONEY & MARKETS

Unspeakable Debts, Unthinkable Answers 56
Bankers are coming to the grim conclusion that the developing nations' trillion-dollar debt is down the drain.



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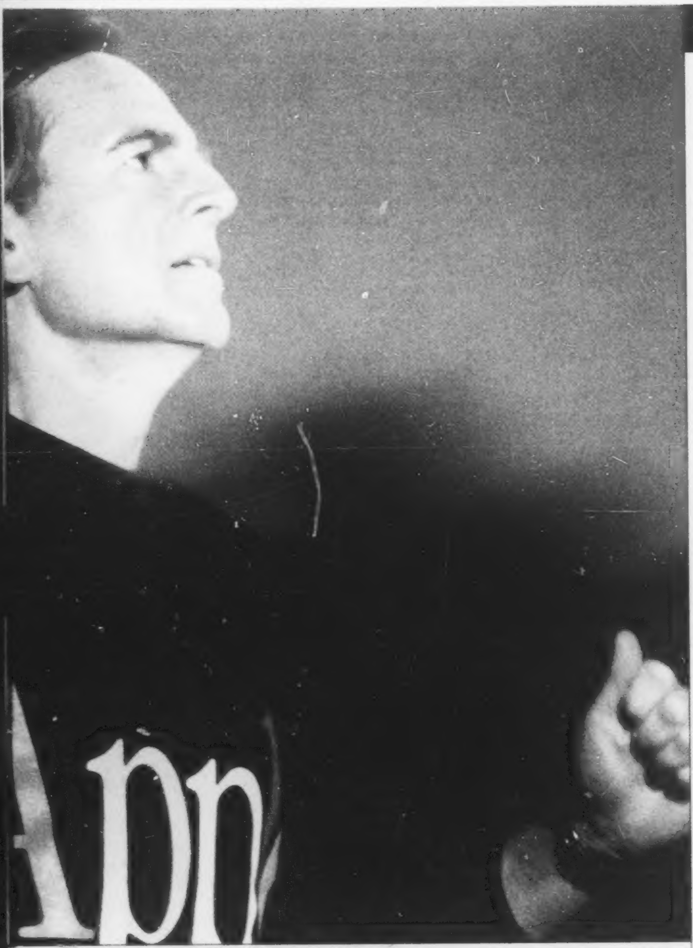
October 1987, Vol. 130, No. 4



30

The Business Month

ECONOMY

- *Greenspan makes a point* 15
- *Profits up*

WASHINGTON

- *Small step for passengers* 15
- *Care for the elderly*
- *Don Who strikes again*

INTERNATIONAL

- *Fallout from Korea's violence* 16

INDUSTRIES

- *Diverse strategies at Honda, Nissan* 17
- *Asea grabs its rival*

MONEY & MARKETS

- *Abboud to the rescue* 17
- *Midwest takes on NASD*

COMPANIES

- *DeLorean redux* 18
- *Merck's big deal*
- *Merger roundup*
- *Rochester U. asserts itself*

REAL ESTATE

- *The old used-plant trick* 19

MANAGEMENT

- *Where bigshots come from* 22
- *Business shuns technology*

ADVERTISING

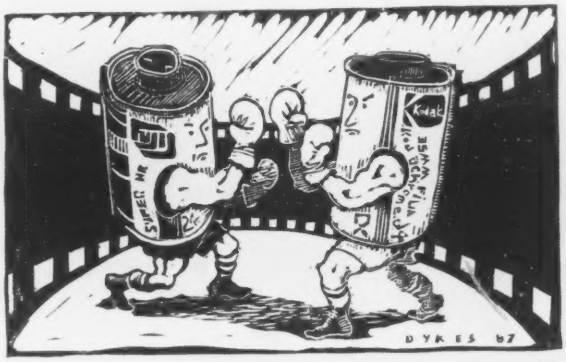
- *More intimate, less obvious* 22

Letters 4

Speaking Out 8
Ford Chairman Donald E. Petersen on the trade deficit

Managers in The News 11
The Even Couple at Westinghouse

Personal Finance 75
On Wall Street: Forecaster Robert Prechter advises chasing the bull by playing the blues



19

COVER ILLUSTRATION BY THEO RUDNAK

Unspeakable Debts, Unthinkable Answers

Emerging nations owe a trillion dollars, and banks now realize that much of it will never be repaid.

by Edward Mervosh

When Chairman John Reed announced last May that Citicorp was increasing its loan loss reserves by a record $3 billion to offset potential losses on loans to developing countries, he sent the world financial system into dangerous and uncharted waters. Reed's announcement was a breathtaking public admission that the banks and the governments of the major industrial nations will never recoup the $1 trillion they are owed by developing countries. Citicorp's decision has left the governments and the banks with the unprecedented task of finding a way of bailing out of those staggering loans without drowning everybody.

The closest analogy to the developing-nation debt imbroglio is the reparations payments the Allies attempted to extract from Germany (there was only one Germany then) after World War I. It was asked to pay several hundred billion in today's dollars. Yet the economic and financial dislocations caused by the burden the reparations put on Germany were a major cause of the Great Depression of the 1930s.

INTERNATIONAL MONETARY FUND

The developing country debt is not only bigger; it involves the entire world *(table)*. "The debt is a threat to the banking system," says David Hale, chief economist for Kemper Financial Inc., "and all of the depressions in recent history have been triggered by a crisis in the financial system."

So it is not surprising that charting a way out of the debt swamp was foremost on the minds of the thousands of bankers and top government officials at last month's annual meeting of the World Bank and International Monetary Fund. Reed's action has in fact set in motion the creation of a new—albeit unofficial—plan for dealing with the five-year-old debt crisis.

The latest scheme, which could be labeled the Reed Plan, is divided into three parts:

☐ Further write-offs of loans.

☐ Selling the debt of developing countries in private markets.

☐ Providing more government aid and bank loans to these countries.

So far, the Reed Plan has been well received. The stock market barely batted an eye when Citibank forced a host of other banks to also add billions in loss loan reserves and in the process murder bank earnings in the second quarter. The new unofficial remedy to the debt crisis is widely regarded as being realistic because it acknowledges that the banks will take losses.

How realistic the Reed Plan really is will depend on how much more the banks may have to write off. That in turn depends on the capacity and willingness of the debtor countries to pay, which is impossible to assess. Says economist Steven Hess of First Interstate Bancorp.: "When the banks and the IMF were willing to lend more money to the developing countries, we had some certainty that they would make debt service payments. Now, with lending drying up, we have no idea how much they will pay back."

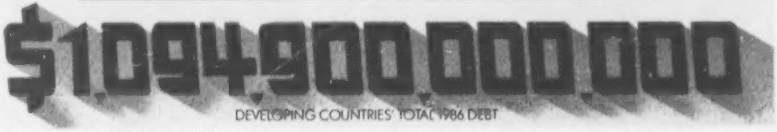
When Mexico set off the crisis back in 1982 by threatening to default, the IMF, the lending countries and the banks worked together to roll over

The World Bank

THE TOP FIFTEEN DEBTOR COUNTRIES

(BILLIONS OF DOLLARS)

	1982	1986
Brazil	$85.7	$109.2
Mexico	91.1	99.9
Argentina	43.6	52.4
Venezuela	37.6	34.1
The Philippines	24.7	28.3
Nigeria	16.5	25.8
Chile	17.9	21.6
Yugoslavia	18.3	21.1
Morocco	11.3	15.9
Colombia	10.3	15.0
Peru	11.5	14.7
Ecuador	6.6	9.0
Ivory Coast	6.5	7.7
Uruguay	4.2	5.2
Bolivia	3.7	4.4



DEVELOPING COUNTRIES' TOTAL 1986 DEBT

Source: Institute for International Finance

debt and help developing countries make interest payments. By 1985, however, that scheme proved unworkable as debt continued to pile up and the developing countries refused to accept the economic stringency demanded by the IMF for more loans.

In 1985, Treasury Secretary James Baker III proposed a new $30 billion plan that would provide still more aid to developing countries if they reformed their economies by opening markets, cleaning up corruption and tightening their belts. Most experts believe the Baker Plan is dead because the banks have been reluctant to lend still more money.

The worst possible outcome, of course, is that all developing countries will stop paying. No one expects that to happen, even though Brazil has stopped making interest payments, Peru and Ecuador are virtually in default and most countries long ago stopped paying back principal.

Although the debt crisis makes the interests of the developed and developing countries inextricably intertwined, their economic goals are at loggerheads. To service their debt, developing countries must sell their goods to the developed nations. But the developed world is growing very slowly, and many nations are gripped by rising protectionism.

Growth in the developed countries during this expansion has been slower than in past upturns because governments fear that faster growth will bring back inflation. This is bad news for most developing countries that depend on commodity exports to earn the money to pay their debt. Despite some comeback over the past year, weak growth in the developed countries has kept commodity prices far below the highs of the booming 1970s.

Economists estimate that the developed countries have to grow by at least 3 percent to enable the developing countries to make their interest payments. With the U.S. growing only 2.5 percent, Germany about 1 percent and Japan struggling to stay in the plus column, growth in the industrialized world is unlikely to meet that minimum level. As Robert Solomon, a senior fellow at the Brookings Institution, puts it: "If slow growth in the industrialized countries continues, we could face a world economic crisis."

Another major uncertainty is how much of the developing country debt the private markets will absorb, and at what price. When Citicorp bit the bullet last May, it announced that it would also be selling this debt in the private markets in an effort to salvage something. Right now the secondary market is tiny. Its growth will depend on how investors value this debt and at how deep a discount the banks will sell it.

When Citibank upped its reserves for covering developing-country bad debt to almost $4 billion on its nearly $15-billion, developing-country loan portfolio, it implicitly discounted those loans to 75 cents on the dollar. But the private markets have been valuing Brazilian debt at only 55 cents on the dollar, Mexico's at 53 cents and Argentina's at 47 cents. Since the Citibank valuation is way above the market, it may have to put even more money into loan loss reserves.

New lending to the developing countries by the World Bank and the IMF would greatly cheer investors and bankers alike. Lending by these institutions acts like a guarantee of a developing country's debt because it increases its ability to pay others.

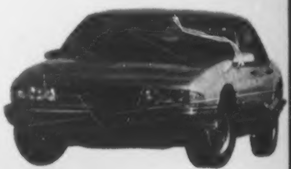
But the lending capacity of the IMF and the World Bank depends on how much the big industrialized countries, especially the U.S., are willing to give them. Secretary Baker wants to increase the capital base of the World Bank to provide it with the resources to guarantee new loans. But it is highly unlikely that Congress will vote the money. "Getting the last increase for the IMF proved very, very tough," says Brookings' Solomon.

Most of the big banks, especially the vulnerable ones like Bank of America and Manufacturers Hanover, would like more government aid to the developing countries. If the governments provide more, the banks might be willing to lend more. But that is unlikely.

That is why it is widely expected that the banks will have to add billions more to loan loss reserves. The only question is how much. What is most worrisome is that the debtors seem to be gaining more and more leverage in setting the terms of repayment. As John Maynard Keynes once observed: "If you owe your banker 1,000£, you don't sleep at night. But if you owe him 1 million£, he doesn't sleep at night." ■

ILLUSTRATION BY BOB SCOTT

Fleet Management: Update '88



Aerodynamic efficiency the new industry watchword; residual values, maintenance and insurance costs are key fleet concerns

It was "steady as she goes" during the 1987 model year, with little to rock the car makers' boats or trouble fleet administrators. Downsizing programs are about as complete as they will be; more powerful 4-cylinder engines are *almost* causing drivers to forget requesting sixes; overall quality of cars is up considerably; and even the fleet insurance situation has improved somewhat.

In fact, there are more carriers willing to insure fleets than in the past two years; insurance rates have begun to stabilize; and legislation has passed allowing more fleet self-insurance. Coupled with company risk management and safety programs, this all indicates a brighter insurance outlook for 1988.

Ford's teardrop shaped Taurus/Sable combination turned on consumers in record numbers and—as fleets tend to reflect the public's taste—they also made a big impact on fleet managers. Aerodynamic efficiency has become the new watchword in Detroit, and you can expect to see more Taurus-type styling. For example, GM's forthcoming "W" body front wheel drive intermediates.

As to technology, two safety features introduced in 1987—anti-lock braking systems and all-wheel drive—are expected to attract a greater amount of fleet dollars, especially in view of the insurance picture.

Clouds on the horizon: The UAW contract with Ford and GM expired September 14, and new negotiations will impact 1988 prices. One major leasing company, Peterson, Howell & Heather, predicts increases averaging about 4% and has advised fleet clients to have alternate vehicles selected "just in case."

Other areas of concern for fleet administrators are a soft used car/resale market (due to huge new car production, attractive incentives, more trade-ins from consumers for the market to absorb) and rising maintenance costs—especially on front-wheel drive cars. Gas prices aren't perceived as a problem.

While respectable fleet sales gains were reported for most car models, and light truck sales were still strong after 4.5+ million unit sales in 1986, medium and heavy-duty trucks sales continued to falter. There just aren't that many on the road today. PH&H says there were 400,000 units before deregulation, compared to 280,000 on the job now. And as companies improve maintenance techniques, they're keeping vehicles longer.

Carl Rehm, Director of Fleet Sales at GMC's Truck Division (which is no longer directly in the heavy truck business), sees changing operational patterns as part of the reason for slow heavy truck sales. "Suppliers are locating closer to users, so they don't need long-distance heavy haulers, and there's a trend to lighter loads, so you can substitute a 'city

Strong seller: GMC Sierra

tractor' for a heavy unit", says Rehm. However, he notes that the shift to mediums gave GMC "solid fleet gains," and the company is nearly back up to its 1980 level of 146,000 units from the depths of 1982's 99,000.

Meanwhile, look for all truck manufacturers to continue efficiency improvement programs, including more engine electronics, aerodynamic designs for fuel efficiency and on-board monitors to check both engine and driver performance. Another key factor will be increased foreign influence, as alliances are struck with U.S. truck makers.

In summary, fleet car and light truck sales are moving along without a hitch, while larger trucks are hanging tough for the long run and long-awaited replacement orders. While the latter are generally custom configured by task, leasing company guides offer full specs on light trucks, as well as cars. (*Information, Please,* page 74.) —J.F.C.

'88 Fleet Cars: Fine Tuned for Savings

The auto makers revealed few surprises, and for the most part letting stylists add exterior facelifts, and putting more emphasis on interior creature comforts and fine-tuning powertrains for maximum performance and economy.

All-new entries include the mid-sized Dodge Dynasty and—in spring '88—GM's new "W" bodies to challenge Ford's already established Taurus and Lincoln-Mercury's Sable.

For now, the fleet buyer has more than 150 models to consider, but we will realistically concentrate on 4-cylinder compact and mid-sized types. The thrifty 4-cylinder engines are key to fleet buying plans, since fuel still accounts for about 25% of a vehicle's operating cost.

As always, the fleet administrator's job is to fit vehicles to the assigned task and territory, please drivers, as well as his or her boss, buy low, control operating costs and sell high. Obviously, it's easier said than done, but sharper managers *are* combining common sense and crystal ball to meet these objectives.

This listing is intended as an overview of the industry's fleet offerings. For complete fleet vehicle information and specifications (including trucks), the major leasing companies offer free guidebooks. And now, the Class of '88 . . .

Chrysler

After riding to fleet success on its Aries/Reliant "K" cars, and maintaining momentum with the Caravan/Voyager T115 mini-vans, Chrysler is set to triple a new fleet segment for 1988 with the new mid-sized Dodge Dynasty. With a standard 4-cylinder engine and optional V6, the Dynasty is ready to take on such fleet stalwarts as the Pontiac 6000 and Ford Taurus, according to Hal Barton, Chrysler's General Manager of Fleet Operations.

Says Barton, "Fleet car sales are up 5%, and orders for 1988 models are way ahead of '87, so far. Our "P" cars, Sundance and Shadow, continue to gain strength, especially in the daily rental market, and mini-van sales are still surging, with our second plant running flat out to keep up. The "K" cars and Voyager/Caravan mini-vans are still our one-two punch, but the Dynasty is putting us into a whole new arena."

Dodge Dynasty: new '88 entry

Chrysler's fleet offerings include the Plymouth Sundance and Dodge Shadow to compete with Ford's Tempo; the aforementioned Aires and Reliant compacts; the E body Plymouth Caravelle and Dodge 600 (actually stretched K cars); the all-new Dynasty and upscale LeBaron. In the fall of 1988, two familiar subcompacts will return: the Plymouth Horizon and Dodge Omni to go head-to-head against Ford's top-selling Escort.

Chrysler fleet sales account for approximately 20% of total production, but that should increase, due to the acquisition of AMC and its line. The Alliance has been dropped, and Chrysler will market the Jeep, Cherokee and Wagoneer models, plus the mid-sized front wheel drive Premier that will bow in the spring of '88.

The ex-AMC cars will have the advantage of Chrysler's distribution system, as well as its fleet salesforce. Notes Barton, "With the addition of AMC's cars and our own new introductions—the Dynasty and Horizon/Omni—we'll have a fleet line with no holes and look forward to a solid increase across the board for 1988."

Ford

"Quality is the best investment a fleet manager can make", says Ford's General Fleet, Leasing and Rental Manager B.G. Willis, as he notes that Ford's fleet sales now account for 26% of total production, up 18%. Taurus, with its teardrop aerodynamic shape, has been the company's fleet bellwether, as is its relative, the Sable, at Lincoln-Mercury. The popular mid-sized 6-cylinder car has a resale value "about $1,400 better than competitors' mid-sized models," Willis notes.

Ford's fleet lineup for '88 starts with the sub-compact Escort (again the world's best selling car) and moves on up to the 4-cylinder compact Tempo—redesigned and available with four-wheel drive—6-cylinder Taurus and full-sized V-8 Crown Victoria. The streamlined Aerostar wagon, now that more product is

Ford's Willis: Life cycle costing is a primary fleet car consideration available, is expected to do well in commercial fleets.

Another measure of Ford's success is its performance at major leasing companies. According to Willis, five major lessors increased their purchases of Ford cars by 14% over a six-month period. "I think the smaller companies who were in it for the ITC will just fade away, as the large full-service firms get even stronger," Willis says. He sees "life cycle costing" as a prime consideration for fleet administrators. "The industry has finally learned to equip cars properly—you just don't move stripped cars anymore. Investing in the right options in the beginning is bound to pay dividends at resale time," he advises.

Ford's total car and truck fleet sales of 559,000 units fell somewhat short of projections, due to an 11% truck dip. But that was well below the 17% industry slump, and Willis expects improvement in '88. Acknowledging the power of fleet administrators, Ford has instituted a Fleet Advisory Panel.

As Willis puts it, "We're hanging everything on quality. That's the Ford fleet difference. We don't want applause from the panel; we want to listen and learn what's wrong and do our utmost to correct it." Judging by fleet car sales, Ford is doing quite a bit that's right!

Lincoln-Mercury

Like its cousin, the Ford Taurus, Mercury's Sable takes a good share of the credit for increasing fleet sales a healthy 10% for the 1987 model year. As a beaming John A. Rowley, Lincoln-Mercury's Major Leasing and Fleet Accounts Manager notes, this adds up to some 180,000 units or about 30% of new car production . . . well above the industry norm of 16%-to-18%.

Primary fleet offerings are the 4-cylinder compact Topaz, which has a total new design for 1988, and the hot-selling 6-cylinder Sable. The executive level car is the Grand Marquis, V-8 powered (yes, they're still around) and sporting minor cosmetic changes.

Lincoln-Mercury's Rowley: Option packages ensure higher car resale values

According to Rowley, the best news for fleet buyers is the Sable's outstanding residual value. "We're nearly $2,000 over our competitors at resale, and my advice for fleet managers with Sables is turn 'em now and get out of it almost paid for," he advises. "A smart fleet manager will see this opportunity and go with market conditions, instead of being restricted by guidelines. Flexibility is the key, and top management should realize this."

Star: Mercury's aerodynamic Sable

Rowley sees a key trend emerging: "Packaging" options, with fewer free-standing ones available. The Topaz LTS, for example, offers just three options, including air bags. "What it amounts to is a less complex fleet buy with no chance of misordering. And, of course, the option packages assure you of a much higher residual value at trade-in time," says Rowley. As might be expected, Topaz and Sable are prominent on all major leasing company recommendations.

Buick

"Make no mistake, Buick is in the fleet business for the long haul," says J.E. Pirtle, Director of Fleet Sales; pointing to the all-new 1988 Regal as the fleet sales catalyst. "It's a move toward separate styling at GM divisions," he says, "and based on its successful preview at the NAFA Convention, we see it giving us the momentum we need to bring fleet sales to 15% of overall production. 1987 will be a building year."

Buick's top fleet seller is the mid-sized Century (relative of the Chevrolet Celebrity), with the subcompact Skyhawk, compact Skylark, LeSabre and "execu-

Projected Fixed and Operating Costs For Selected 1988 Models

Make[1]	Model	Front Seat Head Room	Front Seat Leg Room	Luggage Capacity	Weight	Overall Length	Drive Unit	Cyl	Displace	Annual Costs[2] For 20,000 Miles Operating	Annual Costs[2] For 20,000 Miles Fixed	Annual Costs[2] For 20,000 Miles Total
				(Cu. Ft.)	(Lbs.)				(Ltr.)			
Cad	Deville	38.1"	42.4"	16.1	3,291	196.5"	FWD	8	4.5	$1,710	$6,328	$8,038
Chev	Caprice CL	39.3	42.2	20.9	3,526	212.2	RWD	8	5.0	1,790	4,517	6,307
Olds	Ciera	38.6	42.1	15.8	2,733	190.3	FWD	6	3.8	1,600	4,610	6,210
Chev	Celebrity	38.6	42.1	16.2	2,799	188.3	FWD	6	2.8	1,480	4,325	5,805
Ford	Taurus L	38.3	41.7	17.0	2,887	188.4	FWD	6	3.0	1,530	4,222	5,752
Ford	Tempo GL	37.5	41.5	12.9	2,585	176.5	FWD	4	2.3	1,370	4,126	5,496
Plymouth	Reliant K	38.5	42.2	15.0	2,485	178.6	FWD	4	2.2	1,320	4,168	5,488
Dodge	Caravan	38.9	38.3	48.4	3,031	175.9	FWD	4	2.5	1,460	3,739	5,199
Chev	Cavalier	38.7	42.9	13.6	2,345	178.4	FWD	4	2.0	1,260	3,887	5,147
Ford	Escort GL	37.9	41.5	16.4	2,222	166.9	FWD	4	1.9	1,200	3,757	4,957

[1] All four door cars similarly equipped including automatic transmission, power steering, power disc brakes, air conditioning, tinted glass, AM-FM (stereo when radio not available), body side molding, cruise control, and left-hand remote control mirror.

[2] Costs include operating expenses (fuel, oil, maintenance and tires), fixed expenses (insurance, depreciation, financing, taxes and licensing) and are based on a 36 month/60,000 miles retention cycle.

Buick's Pirtle: Our 1988 Regal will be a big fleet winner

tive level" Park Avenue and Riviera models rounding out the line. Interestingly, the Skylark has been simplified for fleet use. "Drivers simply didn't accept certain things," says Pirtle, "so we've taken out the digital dash, installed bench instead of bucket seating and moved the shift lever to the steering column."

Following an emerging fleet trend, Buick will offer accessory "packages", instead of *à la carte*. Three basic packages may be added to, but not subtracted. As tradition has it, Buick's main appeal to fleet managers, according to Pirtle, is: "Prestige, on-time delivery, customer service and proven residual value. Our dealers have become more fleet minded, and were building our future on how well our customers are handled."

Eye appealing Buick Skylark

Concludes Pirtle, "A good fleet car is a good retail car and vice versa. For fleet administrators looking at life cycle costing, they come out ahead with Buick, and then there are the intangibles of drivers taking better care of vehicles, having more pride in them and often buying them for personal use at disposal time. Those are Buick fleet advantages."

Chevrolet

Chevrolet reports a fleet car sales increase of nearly 10%, despite strong competition from Ford's and Lincoln-Mercury's mid-sized entries; the Taurus and Sable. The mid-sized Chevrolet Celebrity—perennial best selling fleet car—more than held its own, in fact, moving some 130,000 units. "Don't ask me how we did it, we just did", says George Frink, Chevrolet's Director of Fleet Sales. "Despite the Taurus, fleet administrators believed in the Celebrity's basic values: plenty of passenger room, big trunk, excellent fuel economy, classic styling and the price is right."

The 20% of total production that goes to fleets and daily rentals is divided among the mid-sized Celebrity plus—from top to bottom—the sub-compact Cavalier, with a totally new look for '88; the compact Corsica and Beretta; and the tried and true full-sized Caprice.

Chevrolet Corsica: swashbuckling

The Monte Carlo has been cut from the lineup. As Frink notes, it's tough to size-categorize some Chevrolets: "The Cavalier is listed as a subcompact, but it's actually larger than Ford's compact Tempo, while the Corsica is nearly an intermediate." Be that as it may, Frink says, "all major leasing companies have bought the 1988 line."

With the popular Celebrity now getting a bit long in tooth, Frink is looking ahead to the first all-new "W" body design in the 1989 model year.

Oldsmobile

Until the spring of 1988, when Oldsmobile introduces its version of the aerodynamically styled "W" car, the Cutlass Supreme, fleet buyers will be content with a selection that features minor cosmetic changes. The Cutlass Supreme will have front wheel drive, a V-6 engine, and be slightly smaller and about 250 pounds lighter than its rear wheel drive predecessor. Rear wheel drive Cutlass Supremes, with the exception of the two-door Classic, will be dropped.

The 1988 fleet selection includes the subcompact 4-cylinder Firenza, with turbo option; compact 4-cylinder Cutlass Calais; best-selling mid-sized Cutlass Ciera, with 4 or 6-cylinder engines; and full-sized Delta 88 Royale Brougham and 98 Regency.

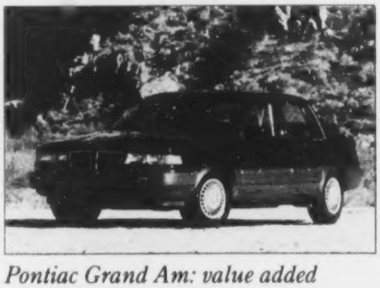
Olds leader: Cutlass Ciera

Like most manufacturers, Oldsmobile is packaging options, which will add significantly to its traditional high resale value. In addition, two new engines options have been added for 1988: the "Quad 4" dual overhead cam 4-cylinder, which boasts performance on par with a V-6, while maintaining fuel economy; and the 3800 V-6 for those who want a high performance powerplant.

Pontiac

After a 17% fleet sales increase in 1986, Pontiac continued its hot streak in the General Motors lineup, rising to number two, next to Chevrolet. According to Jack Losch, Pontiac's Director of Fleet Sales, the compact 4-door, 4-cylinder Grand Am compact and mid-sized 6000, with 4 or 6-cylinder engine, are Pontiac's fleet leaders, accounting for 70% of sales. The 6000—comparable to the Chevrolet Celebrity—will be available in an all-wheel drive model in late 1988.

"We were actually slightly off in 1987", says Losch, "due mainly to the late entry of our new full-sized Bonneville, but we still managed to maintain our fleet market share of just under 10%. With the Bonneville in good supply and able to compete against such cars as the



Pontiac Grand Am: value added

Pontiac's Losch: Styling and resale value are the keys to our fleet success

LeSabre, we expect a significant increase this year."

Rounding out Pontiac's line are the compact 4-cylinder Sunbird and a new import for 1988, the LeMans.

"Styling and excellent resale value are the keys to our fleet success", says Losch, "and with fleet managers paying more attention to ROI than ever, these qualities put us in good shape for the future." An all-new mid-sized model, the aerodynamically styled "W" body with front-wheel drive, will be introduced in the spring of 1988.

Import Outlook

Imported cars and trucks, though still non-factors in the commercial fleet picture, are getting feisty, now that more product is available. In previous years, fleet supplies were on allocation.

U.S. plants—for example, Toyota's joint venture with GM in Fremont, California—have made for new-found fleet availability. And with improved distribution networks and delivery capability, the imports just might begin to make inroads; especially if threatened strikes curtail the supply of American models.

Mitsubishi

Mitsubishi moves into the 1988 model year with little line change. These solidly-built cars feature extensive lists of standard features. Fleet sales should center on the sub-compact Precis, compact Tredia and upscale Galant. All are powered by 4-cylinder engines, and the Tredia offers a turbo option.

Nissan

Thanks to more production at its Smyrna, Tennessee, plant, Nissan will increase its fleet car availability significantly for 1988 and offers new programs for daily rental and leasing companies, according to James Tavasci, National Fleet Sales Manager. The selection includes the Pulsar NX (the only model on allocation), its best-selling 4-door Sentra compact, Stanza mid-size and Maxima luxury sedan. All have 4-cylinder engines, with the exception of the Maxima with V-6. "We're priced competitively have excellent resale value, and a new J.D. Power survey of all Japanese manufacturers rates us number one in quality," says Tavasci, "and we see as much as a 15% fleet increase for 1988."

Subaru

Sensing the change in the fleet buying climate, Subaru of America is, in the first year of its fleet program, offering a $500 incentive on its XT, 3-door coupe and 4-door sedan and wagon. As with Nissan, more cars are available to fleets, due to a joint manufacturing venture with Isuzu in Lafayette, Indiana.

Subaru has had 4-wheel drive cars since 1969 and, according to Charles Reed, Fleet Sales Manager, this feature makes Subaru very attractive to fleets in the snow belt states. The company projects a modest first year sales figure of 15,000 units. "You just can't ignore fleet sales", says Reed, "and we're going to take advantage of a great opportunity!"

Toyota

The big styling changes happened in 1987, so the 1988s will have minor touchups, with the exception of the all-new Corolla. Toyota claims to be top runner in U.S. fleets among imports and in calendar '86 moved 107,000 cars and 33,000 trucks for an 8% increase. Plants in Fremont, California, and Georgetown, Kentucky, assembling Corolla FXs and Camrys, respectively, will provide plenty of product for fleets and rentals.

Says Don Esmond, Corporate Fleet & Truck Manager, "We've steadily increased our fleet penetration, and now we're getting on more selector lists and major leasing companies are recommending Toyota for the first time."

Toyota's fleet favorites include the sub-compact Tercel, available in five models; the compact Corolla FX; the mid-sized Camry; and the full-sized Cressida 4-door luxury sedan or wagon. The latter has a 6-cylinder engine, while the rest are 4-cylinders.

The list of standard equipment is formidable, and contributes to the Toyota's high resale value.

"We've strengthened our distribution network, can build to spec, and deliver on time," Esmond continues. "We're looking to continued fleet increases across the board—in cars, trucks and mini-vans."

Toyota Camry: fleet mover

Now that they've broken the ice with major leasing companies, it may signal a whole new era for imports. Time—and domestic car supply—will tell. —J.F.C.

Timing Is Everything

Replacement timing is one of the key elements in fleet cost control. Although the methods used to determine the best time to market used vehicles differs from company to company, the common goal of fleet managers is still maximum return on their company's investment. The name of the game is placing the vehicle in the right market at the right time and deciding when the car is more valuable out of service than in.

Depreciation, or the holding cost of a vehicle, represents approximately 52% of the total cost of operating a vehicle and stands as the single largest cost.

It follows that controlling depreciation is a major activity of effective fleet administration which can provide a substantial reduction in operating costs. The idea is to select vehicles that are most likely to enjoy low levels of depreciation over their service lives and use sound used car marketing methods to increase the return on investment.

The selling decision can be based on three basic factors: mileage, age, and market value.

Mileage—Using the mileage yardstick to determine when to replace a vehicle will put it into the retail used car market at its value peak. By basing the decision on a specific mileage level, fleet managers can protect the car against the significant resale penalty for high mileage.

Bear in mind that a high mileage replacement point ignores the penalty of maintenance costs. The longer a car is in service, the more the car will cost to keep it operable. And with continuing fuel economy improvements of new cars, putting miles on a relatively inefficient car adds another cost penalty. And needless to say, the retail dislike for high mileage fleet cars is legendary.

Age—The yardstick of age protects the fleet manager from selling a fleet car before he has made full use of its low-maintenance mileage potential. Using age as a basis for timing replacements will fill up the odometer with a maximum number of sales/service dollar producing miles before age becomes a liability.

Market Value—The used car market is going to tell the fleet manager what the car is worth. By making the move when the car appears to be most attractive to retail buyers, the fleet manager can recapture the maximum amount of the acquisition cost.

Luxury liner: Chrysler New Yorker

The Church of Jesus Christ of Latter-Day Saints, has a company-owned fleet, which consists of several thousand vehicles operated on a 3-year/55,000 mile replacement cycle. According to Don Benson, former manager of transportation administration, "We tried to structure our replacement policy on depreciation. We continuously analyzed the wholesale market in order to get the highest return and reinvest in new vehicles."

A totally different approach is used by Gerber Foods, which usually trades its vehicles every 12 months. Don Allen, corporate fleet manager for Gerber, says that fleet car mileage can range from 9,000 to 35,000 miles depending on territory. However, Allen points out that Gerber's 12-month replacement policy takes into account market conditions. "We incorporate a high degree of flexibility into our replacement criteria," he says, "and market conditions influence our decision to replace or hold cars."

Allen's theory on replacement cycling is not to place time or mileage restrictions on the car. He believes that if you want to get the most for your money, the determining factor should be based on what car you buy, how it is equipped, and how you train your drivers to take care of it. Says Allen, "I don't get too concerned with how much money we put into a car, initially. It's the net holding cost that is important. Investing a little extra in the cars pays off at trade-in time."

NAFA's Annual Used Car Marketing survey reveals that the majority of fleets keep their vehicles an average service life of 31.0 months and the cars are driven an average of 64,356 miles before replacement. The survey also noted that leased cars are kept for a shorter time and driven fewer miles than company-owned cars.

What's right for your company depends on your car criteria and, ultimately, the knowledge and "market feel" of your company fleet manager. Whether he or she decides to extend the replacement cycle or shorten it can dramatically improve the financial returns on your vehicles. In short, the fleet manager who has developed market sensitivity (call it seat-of-the pants sixth sense) and a good sense of replacement timing is a valuable corporate asset indeed. —L.W.

Fleet Management Overview

The most popular American corporate fleet vehicle is a company-provided, four-door intermediate-size car with front wheel drive powered by a six-cylinder engine and equipped with air conditioning, automatic transmission, power steering, power brakes, AM/FM radio, power brakes, tinted glass, cruise control and all-weather radial tires.

Its driver picked it from a selector list of vehicle choices offered by his company, and then drove the car about 20,000 miles in the course of a year. The company paid about $600 to insure that driving, a nearly 100% increase over 1984's annual fleet car insurance rate of $324, underwriting its risk with an umbrella insurance policy worth $1 million.

The car described above is from data in Runzheimer International's *1987-1988 Survey & Analysis of Business Car Policies and Costs*. Runzheimer's latest survey offers a unique, sometimes startling picture of the corporate car and truck fleet picture, presenting insights into both today's scene and emerging trends.

A third of company drivers surveyed in 1987 operated their vehicles under the requirements of a written corporate safety policy. Suprisingly, less than a third of the corporate vehicle fleets have a written policy covering mandatory seat belt use, although more firms than ever before are penalizing employees involved in traffic accidents or driving violations.

The 1987 company car cost more to repair, insure, operate and acquire.

Due to the growing corporate investment in vehicle fleets, companies are holding onto their cars and trucks longer, squeezing more life out of the vehicle before it's resold. A usage lifetime of 36 months and 60,000 miles has become the industry median for cars, with vans and light trucks serving their owners a shorter time but more miles: 40 months or 75,000 miles.

It follows that rising insurance and vehicle acquisition costs together with the loss of some of the traditional tax advantages enjoyed by capital assets, are forcing corporations to manage their fleet assets much more carefully.

NAFA's Lefever: Car warranties are powerful fleet cost control tools

"There are about 2.7 million fleet cars and trucks in the U.S. today," says David Lefever, executive director of the National Association of Fleet Administrators (NAFA), the fleet trade organization based in South Iselin, N.J. "Fleets account for 24% of the cars and trucks built in American annually; so it's obvious that fleet usage patterns have a substantial impact on U.S. automakers.

"Right now, the new tax picture is affecting every sort of capital-intensive purchase made by corporations," Lefever says. "Before the tax law change, corporate vehicle fleets generally depreciated cars and trucks over a three-year schedule. That has increased to five years. Since the write-off factor isn't as powerful, and the general quality of U.S.-built vehicles has steadily improved, it's practical and cost-effective to keep fleet vehicles longer.

"Maintenance costs don't increase prohibitively. Detroit's extended warranties have had a lot to do with this. Fleet cars with 50,000-60,000 miles can still be under warranty. Those programs have become powerful tools to hold down maintenance expenses.

"Long-term maintenance programs such as Ford's Extended Service Plan (ESP) allow managers to buy maintenance plans at the time of purchase. Then cars can be operated for the length of the Plan's term for a fixed, known cost.

"Insurance costs, on the other hand, are a business expense that managers can't do very much about, although a few underwriters are responding favorably to some innovative programs and policies instituted by fleet managers.

"Tax reform and cost-effective extended warranties are both part of the reason why the overall size of U.S. fleets has remained steady," Lefever continues.

"One predicted result of the new tax laws was that corporations would overwhelmingly move away from ownership to leasing. The split is now about 50/50. The leasing industry likes to think that leasing will come to dominate, but the switch is not on."

Where Automotive Fleet Dollars Go

COST AS A PERCENT OF THE TOTAL

Cost Component	1976	1978	1980	1982	1984	1986	1987
Depreciation/Interest	40.7	44.7	46.7	49.4	45.6	53.4	52.6
Gasoline	34.7	28.1	33.7	32.1	30.3	19.6	20.3
Insurance	13.6	16.1	11.2	10.7	11.7	13.7	14.3
Maintenance	6.1	6.5	5.1	4.6	5.2	6.3	5.8
Tires	3.5	3.2	2.4	2.5	2.6	2.5	2.6
License	.6	.6	.6	.2	.2	.3	.3
Other	.8	.8	.3	.5	4.4	4.2	4.1

Source: Runzheimer International

Echoing concerns voiced in the current Runzheimer survey, Lefever sees an upward creep in fuel prices as another factor causing more costly fleet operation. "Fuel costs are going up, albeit rather slowly. And there's another five-to-ten cent Federal tax hike pending," he says.

The 1987 Runzheimer study found fleet managers' biggest worry was vehicle disposal costs, given an overall soft used car market, created in part by the generous new-car financing rates automakers are offering, in part by loss of the investment tax credit and longer depreciation periods.

As part of a trend to tighten control on corporate assets, most fleet managers reported establishment of stricter expense and mileage reporting techniques, along with a new look at personal use chargeback policies.

According to Runzheimer, fleets are shrinking job categories provided cars. There's even been a slight increase in the number of firms relying on employee-owned vehicles, with companies reimbursing employees for company-related use. Companies adopting this practice are, for the most part, smaller firms, and the vehicles are not used as often as those belonging to companies with large service and sale-oriented fleets.

Despite cuts in the number of job levels that get cars, the economy's movement toward service industries means many more service-related employees. Fewer kinds of employees get cars, but the number in each category is up.

"Certain types of employees simply *must* be out in the marketplace. Business doesn't walk in the front door, you've got to go find it." Lefever says. "Even when a real crunch is on, not many companies get rid of their cars. They're just too valuable.

"Fleets facilitate basic business; it's that simple!" —B.W.

Case History: Digital Equipment Corp.

However you imagine it, 11,000 vehicles is a lot of cars and trucks. And that's just what Digital Equipment Corp., the computer manufacturer, maintains in one of the largest U.S. corporate vehicle fleets. Fleet Manager Rick Catino oversees it all from company headquarters in Maynard, Massachusetts.

"98% of the fleet is leased," Catino says. We contract with two leasing companies: PH & H of Baltimore and Gelco. For the time being, we go with leasing because of a cost/benefit analysis that showed leasing fit in well with DEC's cash-flow picture.

Virtually all the vehicles are Ford cars and most of them are Taurus sedans.

The DEC Taurus sedans are "fleet-equipped," meaning standard amenities, air conditioning, and the other creature comforts of a slightly upscale car. Employees can order additional options at their own expense.

But one item usually considered an option, DEC management makes standard. "We ordered our Taurus' with an AM/FM/ cassette deck," Catino says. "The tape player is not a luxury item; DEC uses it to educate and inform its sales staff. Driving all day means a lot of en route dead time. So DEC puts technical and sales presentation material on tape and sends it on the road."

The DEC fleet puts considerable miles on its vehicles . . . over 251 million per year, according to Catino. That works out to an average of 22,818 miles per vehicle. DEC resells and rotates cars every 36 months or 60,000 miles, whichever comes first.

Tracking so many vehicles surely requires the use of computers. Which computer system does Catino use?

"Guess," he laughs. "We use DEC's VMS VAX system, along with some software developed for us in-house. Our system still has a way to go. We load data in the office, but we do not transmit data in from the field operations. That's still largely paper-based.

"We have a lot of vehicle turnover from site to site throughout the U.S., and the computer comes in handy to track movements."

Movement is Catino's management strategy as well. "Right now, one out of every five cars built in America goes to fleets. And today, manufacturers have too much capacity, so it's a buyer's market. There are moving targets, opportunities that present themselves, then disappear. When they come along, we jump on them!"

If that sounds impetuous, it is—at least a little. To be productively impetuous, managers need support, from management. And Catino says he not only gets all he needs, but so do all his fleet managers.

"Consistency is important, as well. Whatever the reason for deciding one way or the other, a company has to decide what policy will be and stick with it. Once there is a policy for company vehicles, it has to be true for all the vehicles, not just certain classes or types. That consistency generates respect.

"For a fleet operation to be a success, it's vital for senior management to perceive the fleet manager for what he or she is: an assets manager. Fleet management is not purchasing. In purchasing, you buy something and you're finished with it. A fleet is a major asset. It's vital to know what to do with it. When to buy vehicles, when to dispose of them, which vehicles to choose, and so forth. Too many executives see fleets and fleet managers as a necessary evil, little more than a conduit through which money flows away from the company.

"What those executives don't see is that fleet management is a valuable tool; that there are numerous programs that can reduce costs. They don't understand the impact of the fleet on the bottom line. And that's sad, because it's a fact that companies with large fleets that take an active interest in managing them have lower costs."

Lately, Catino has been waging a war against rising insurance costs. "We've experienced some major increases, so we're doing more about safety and loss prevention. As part of that program, we created a special position completely dedicated to those goals.

DEC's Catino
Fleet car leasing best fits our cash flow picture

Ford Taurus: bullish on fleets

"Doing so made sense, partly because of the sheer size of a company like DEC. A large company is more susceptible to litigation, especially from nuisance suits. Some of our service vehicles have the DEC logo on them and are targets if they get in an accident. Preventing accidents in the first place is a great way to avoid suits."

A former NAFA "Fleet Manager of the Year," Catino has been with DEC for nine years, seven longer than the 36-year-old manager planned to stay. "But the job here at DEC is an ongoing challenge. The opportunities for saving the company very serious money are endless.

"So I stayed because of the challenge. It's not a stagnant position; far from it. At the end of the day, I go home feeling good because I know I've made a contribution to the bottom line." —B.W.

Safety Programs Pay Dividends

Vehicle accidents are the number one cause of on-the-job fatalities and lost work time, according to statistics from the National Safety Council (NSC). In 1985, 11,600 people died in job-related accidents; 4,100 of them in motor vehicle accidents. A company with 1,000 employees will lose 217 work days a year due to motor vehicle injuries.

Statistics from the National Highway Traffic Safety Administration are equally grim. According to January 1987 figures, everyone can expect to be in a crash once every 16 years. From another point of view, one of each 16 employees in your company is likely be in a traffic accident during the next 12 months, either on or off the job, and one in seventy will be injured. Aside from direct costs for vehicular damage, the cost in human loss is enormous. Lost productivity and other outlays can impact a company's profits.

These figures, coupled with escalating insurance premiums and liability claims, necessitate the need for a company to seriously consider establishing a safety program. This responsibility usually rests with the fleet manager.

Artful Dodge: Caravan mini-van

In an automotive safety program, the goal is to reduce loss of life, limb, property, manpower, equipment, time and money. There is no magic formula, but several key ingredients always apply. An effective safety program should include:

- An personnel policy that will weed out potential problem drivers.
- Keeping detailed and accurate statistics as well as analyses of all accidents.
- Formation of a Safe Driving Committee and/or an Accident Review Board with representation from the fleet and insurance departments.
- Developing and implementing a continuing educational program that includes special films, newsletters and

driver training seminars.

- Instituting motivational and recognition programs.
- Providing an effective vehicle maintenance, and
- A policy statement on use of seat belts by all occupants in all company cars.

This last point is particularly important to Steve Schultz, fleet administrator, Merrell Dow Pharmaceuticals, Cincinnati, and Safety Committee Chairman for the National Association of Fleet Administrators, Inc. (NAFA): "At Merrell Dow, employees realize the significance of safety on the first day of employment. All drivers must go through *Commentary Drive*—an in-house training program that places emphasis on wearing safety belts. I am confident that there is a high level of compliance. While it's impossible to monitor every driver in every car, our accident reports indicate that most drivers believe in the saving power of seat belts. In serious accidents, no one's been injured."

Diane Steed, administrator of the National Safety Council, agrees with Schultz that a seat belt policy is an integral part of a safety program: "Even with safety belt use laws and company belt use policies, studies show as many as half the drivers in company vehicles either forget, or intentionally, do not wear their seat belts. These unprotected drivers put the company at risk. And the losses can be significant: loss of corporate skill and knowledge, loss of productivity and monetary loss."

Educational training programs are essential to a safety policy. Opportunities for fleet executives to set up continuing educational programs are endless. Two that should be included are periodic safety bulletins and regular reports on frequency and cost of accidents.

An incentive or motivation provision is another important aspect to a fleet safety program. It could include: awards (certificates, plaques, etc.), incentives (cash or merchandise), recognition (through articles and pictures in the company house organ, local newspapers and company affairs), and penalties (making the employee share repair costs after a chargeable accident; taking away personal use privileges or requiring the employee to pay individual insurance).

Simply dashing: Dodge Sundance

Phillip Morris in New York City is well-known for its incentive program. Fleet Manager Greg Tarring describes the company's "Drive To Win" Program: "Our drivers have their records evaluated on an annual basis, covering the period from January 1 to December 31. Those drivers without an accident are put into our computer list of safe drivers. They are then entitled to receive an award; the value of the prize varies depending on the number of consecutive years a driver has been accident-free."

Fleet favorite: Ford Tempo

Tarring believes this incentive program has been a strong motivator for his drivers. Since 1980, when "Drive to Win" was initiated, there has been a 10% decrease in the number of driver accidents. "We continually remind them of the program through notices in the company newsletter and through quarterly mailings. I believe the program has helped them become more cognizant of their driving habits."

And that is the crux of an effective safety program. If you lend full support to your fleet manager's safety package, there is little doubt that insurance and operating costs can be reduced and injuries prevented. If every company employee, at all levels, understands and actively participates in a safety program, the fleet manager's salary can be recouped many times over. And, most important, lives will be saved and tragedies prevented. The next step? Just ask your fleet administrator for a full safety report and details of the company safety program. There *is* one, isn't there? —L.M.

Information, Please

1986 Automotive Guide Books:
Facts, figures and fleet recommendations, available from:

- ARI, Inc., 207 Union Street, Natick, MA 01760 (car data on floppy disc).
- Avis Car Leasing, PO Box 117, Carle Place, NY 11514
- Gelco Fleet & Management Services, 3 Gelco Dr., Eden Prairie, MN 55344
- Peterson, Howell & Heather, PO Box 2174, Baltimore, MD 21203
- McCullagh Leasing, 30803 Little Mack Ave., Roseville, MI 48066
- U.S. Fleet Leasing, Inc. (Licensee of Hertz System), PO Box 5933, San Mateo, CA 94403
- Wheels, Inc., 6200 N. Western Ave., Chicago, IL 60659

Runzheimer Reports 555 Skokie Blvd., Northbrook, IL 60062.

- *Runzheimer Reports on Transportation*—Monthly newsletter on car/fleet management ($195/yr).
- *Runzheimer Reports on Fleet Maintenance & Safety*—Monthly newsletter for fleet managers ($156/yr).
- *Runzheimer on Cars and Living Cost*—Informative and *free* quarterly.
- *1987/88 Survey and Analysis of Business Car Policies and Costs*—($296).
- *Runzheimer Reports on Travel Management*—Steps to control rising travel costs, monthly newsletter, ($245/yr).

NAFA Fleet Manager's Manual
Everything one needs to know about running a corporate fleet, and more; includes sections on acquisition, expense control, maintenance and safety. $85 per copy, from: National Association of Fleet Administrators, 120 Wood Avenue South, Iselin, NJ 08830, (201) 494-8100.

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INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(8/31/87) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$33.25/share	$10,384	$13,407
percent change		+3.8%	+34.1%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$120.25	$ 9,806	$ 8,593
ACCUMULATED INCOME		$ 80	$ 840
TOTAL		$ 9,886	$ 9,433
percent change		−1.1%	−5.7%
Money Market Fund	6.0%*	$10,051*	$10,600*
percent change		+.5%*	+6.0%*
Gold (Krugerrands)	$454.60/oz.	$ 9,726	$11,650
percent change		−2.7%	+16.5%
HOUSE PRICES	Recent	Month Earlier	Year Earlier
Existing House	$115,300	$117,200	$108,500
percent change		−1.6%	+6.3%
New House	$141,200	$134,600	$117,900
percent change		+4.9%	+19.8%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes, Inc.; Federal Home Loan Bank Board. *Estimate.

"The strongest analogy [with the present] is to the 1920s," Prechter says. "In 1929, as the bull market was rushing into its final month, more stocks were falling in price than rising, even though the Dow was still going up. There was no widespread speculation. Rather, the speculation was concentrated in a handful of stocks that were going up a lot."

The good news, at least to Elliott Wavers, is that the correction—whenever it sets in—will clear the way for a huge move into the mid-3000s by late 1988 or so. The bad news is that the Great 1980s Bull Market will then come to an end—perhaps a crash landing, says Prechter.

How bad could it be? Because the 1980s bull market has far outgained the 1920s rise, which led to a three-year bear market, Prechter thinks the coming bear market could last as long as six years—perhaps through 1994. And he believes the Dow Jones average could plunge to a minimum of 1000 and possibly as low as 400, since in the bellwether fourth Elliott wave in the 1932–8? bull market it bottomed around 800. "It's something worth worrying about," he adds rather matter-of-factly.

Prechter's advice? "Grab the bull market by the horns and make the most of it while it's still here," he says. Near term, during the correction he expects to precede the climactic bull market surge, Prechter counsels investors to "orient yourself toward keeping what you have rather than fighting the downtrend." But, he adds, if you miss the next buying opportunity in equities, you may have to wait until 1994 for another to come along.

Right now Prechter, who is strictly a market caller, not a stock picker, is convinced that the small investor's best bet for the bull's final run is buying a mutual fund, either a stock index fund or any fund loaded with blue-chip stocks. Says he: "The bluer the chips, the better." —LEAH NATHANS